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AN ECONOMIC HISTORY OF EUROPE
1760—1930

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1760—1930

BY

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PREFACE

THE object of this book is to describe and emphasize the outstanding features in the economic development of Europe during the last hundred and fifty years. For the sake of clearness, facts and episodes which do not fall within the main currents of change have been either omitted or only lightly touched upon. The character of an age is determined by its dominant institutions and tendencies, and exceptional facts, while they cannot be altogether ignored, should never be allowed to blur the bold outlines of the picture. This is also the justification for directing the reader's attention almost exclusively to the industrialized countries of western Europe, where the characteristic economic tendencies of the period under consideration showed themselves most unmistakably. The material progress of the Scandinavian and the Mediterranean nations is not without its interesting features, but it lies outside the main stream of modern economic development, and to treat it at any length would not merely have swelled this book to an inconvenient size, but perhaps have given a false notion of the relative importance of the different forces at work in the latest period of European economic history. The plan adopted will, it is hoped, avoid this difficulty, and allow the reader to form for himself a clear conception of the economic factors which have made the present age what it is.

I wish to express my grateful thanks to my former teacher, Principal J. F. Rees, M.A., of Cardiff University College, who has added one more to my many obligations to him by kindly reading through the manuscript and making a number of most valuable suggestions.

A. B.

EDINBURGH
March, 1930

INTRODUCTION

THE economic development of modern Europe may be summed up in a single phrase—the rise and expansion of industrialism. During the last hundred years the importance of agriculture has declined and manufacturing industry has become the principal occupation of the leading European nations. The economic consequences of this change have been profound, but it has also produced social consequences of far-reaching importance. The revolution which transformed the face of Europe in the modern age had therefore a double character. It was both social and economic. Some conception of its extent and significance may be obtained by briefly contrasting modern industrialized society with the older social organization which it displaced.

The economic system of the seventeenth and eighteenth centuries was a simple one. The bulk of the European population was quartered on the land and lived in small agricultural villages. The towns were small, with the exception of a few political capitals like London and Paris, and were inhabited for the most part by little groups of traders and artisans, two classes which at that time formed only an insignificant fraction of the population. Industry was carried on by independent craftsmen, producing on a small scale in little workshops of their own, or in their homes. Trade was concerned chiefly with local needs and local markets.

The development of industrialism broke up this simple economic organization. The activities of the more progressive nations were diverted from agriculture to industry. The population was swept off the land and herded into towns. The handworker gave way to the machine; the workshop to the factory. A world-wide commerce sprung up which carried the products of the industrial countries into every corner of the globe and brought back to them the food and raw materials which they no longer produced for themselves. The older economic organization with its small towns, its scattered industries, its local markets and its limited foreign trade, gave way to a system with densely populated industrial centres, large-scale production, world-wide trade and world division of labour.

This economic revolution was accompanied by a social transformation. Since the Middle Ages, European society had been predominately agrarian. The two important social classes were the landowners and the peasants; the landowners who performed the work of government, and the peasants who supplied their masters with the material necessities of life. The small urban groups of traders and craftsmen, though respected by the governing classes, and, in some cases, enjoying an influence out of all proportion to their numbers, did little to impair the symmetry of a social system which had the land as its basis.

The growth of industrialism introduced disturbing elements into this social organization. It created new classes and upset the balance between the old. The importance of landowners and peasants declined; that of traders and industrialists steadily increased. Most significant of all, there emerged a new class, the industrial wage-earners or the proletariat, destined to be the storm-centre of the social warfare of the future. Powerless to assimilate these new elements, the older society began to break up, and its dissolution was hastened by the social and political strife which broke out between the different classes of which it was composed. The industrialists challenged the political monopoly of the landowners, and the proletariat, in its turn, clutched at political power and sought to use it as a means of bettering the economic conditions of its members. Through all the political contests of the nineteenth century, there runs like a red thread the rivalry of opposing social classes. This rivalry was almost entirely due to economic causes. The community of interest which society presupposes, did not exist in the economic sphere. Economic relations acted not as uniting but as disruptive and disintegrating forces. Indeed, there were periods in the nineteenth century when it looked as if industrialized society must inevitably perish; either collapsing through its own weight or blazing up in the flames of revolution. That it survived must not blind us to the fact that the danger of social catastrophe was at times a very real one.[1] Even yet, society has not succeeded in bringing completely under control the disruptive economic forces that are at work within it.

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[1] Contemporaries were alive to the danger. 'We are engulfed, I believe,' wrote Dr. Arnold, 'and must inevitably go down the cataract.' Compare also the sombre prophecies of Carlyle and Ruskin.

The economic history of modern Europe is the record of the impact of industrialism upon an older and more stable organization. In some countries like France, the older society showed great powers of resistance and industrialism won only a partial victory. In others, like Britain, the new forces carried all before them. But everywhere, whether by action or reaction, industrialism is the decisive factor in the economic development of the nineteenth century. The changes which it set in motion have not yet exhausted their influence and this is responsible for one of the significant features of the modern system—its want of stability. In the Middle Ages, as in the Ancient World, the methods by which man supplied his material wants changed slowly, and for centuries the economic organization preserved the outward semblance of immobility. But in the modern period, every decade witnesses a fresh outburst of economic change, and before society has had time to adjust itself to one set of economic conditions, they are swept away and replaced by another. Economic development is constantly outstripping social development, and the wished-for stabilization of society recedes ever farther into the distance.

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AN ECONOMIC HISTORY OF EUROPE, 1760-1930

CHAPTER I

THE INDUSTRIAL REVOLUTION

THE Industrial Revolution is a general term used to describe the series of economic changes which transformed European society in the eighteenth and nineteenth centuries. Exception is sometimes taken to the phrase on the ground that revolutions are unknown in economic history. Sudden catastrophic change, it is said, is inconsistent with the slow gradual process of economic evolution. And the criticism is not without point. The Industrial Revolution was neither sudden nor catastrophic in the ordinary sense of these words. It was a movement spread over a period of a hundred and fifty years, and its origins can be clearly discerned in forces actively at work since the close of the Middle Ages. But the term is not without a certain appropriateness. The changes which it describes were so far-reaching and profound, so tragic in their strange mixture of good and evil, so dramatic in their combination of material progress and social suffering, that they may well be described as revolutionary. To call them such, at any rate, helps to remind us that the rapidity of economic change during the eighteenth and nineteenth centuries was greater than in any previous age, and that the price exacted in the shape of social suffering was more than usually heavy.

The industrialization of Europe is a process that is not completed. The countries of the south and the east still remain predominantly agrarian, and the victories of industrialism have been confined to a comparatively small area in the northwest covered by the territories of Britain, France, Belgium and Germany. These are the four leading industrial countries in Europe. Each of them underwent the process of industrialization at different times and under different conditions. The first to feel its effects was Britain. In her case, the movement began about the middle of the eighteenth century and in the course of seventy or eighty years transformed her from an agricultural into an industrial country with an extensive foreign trade in manufactured goods. In France and Belgium the first stirrings of change were not felt till the early decades of the nineteenth century and the movement towards industrialization followed a different course from what it did in Britain. Neither country became completely industrialized. Even to-day, their principal occupation is agriculture and half their populations are employed on the land. In Germany, the Industrial Revolution came late, in the 'seventies and 'eighties of the nineteenth century. But once begun, the movement worked with extraordinary rapidity, and within the short space of a generation, transformed the sleepy, medieval Germany of the 'fifties into one of the most highly industrialized countries in the world.

The order in which the chief European countries were industrialized is explained by causes, partly economic and partly political. The primary economic cause of the Industrial Revolution was the remarkable expansion of overseas trade which took place during the seventeenth and eighteenth centuries. Division of labour, or specialization of employments, as Adam Smith pointed out in a well-known passage,[1] depends on the extension of the market. Since the earliest times economic progress has taken the form of increasing specialization, and every epoch of change has been preceded by a widening of the market and an expansion of trade. During the sixteenth and seventeenth centuries, maritime enterprise opened up new markets in Asia and America and led to a notable extension of trade between Europe and these two continents. The goods demanded by the new markets were of the kind most suitable for production by machinery ; simple articles, lending themselves easily to standardization like the cotton cloths worn by the natives of India. The expansion of the demand for goods of this type gave a great stimulus to machine-methods of production, and was responsible for the mechanical inventions of the eighteenth century, the spinning-jenny of Hargreaves, the water-frame of Arkwright, the mule of Crompton and the power-loom of Cartwright ; all mechanical devices for the spinning and weaving of cotton cloth. These inventions are sometimes spoken of as the primary cause of the Industrial Revolution. In reality, they were a secondary cause only. Machines for turning out cheap goods in large quantities are useless unless there is a market capable of absorbing the increased output. The market must come first; the inventions follow. Mechanical discoveries have often the appearance of being due to accident, but unconsciously the successful inventor works within limits laid down for him by the changing needs of society.

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[1] *Wealth of Nations*, Book I, Chap. 3.

While the development of overseas commerce was the economic cause of the Industrial Revolution in Europe, political factors largely determined in which country its effects should first be felt. The control of the new markets was disputed between the leading nations, and from the prolonged struggle for colonial empire which filled the seventeenth and eighteenth centuries, Britain emerged the victor. Her naval strength enabled her to meet and overcome in succession the might of Spain, of Holland and of France. The establishment of a British colonial empire in India and America had the effect of restricting the influence of the new overseas markets almost entirely to one country. In the eighteenth century, trade followed the flag, and no government allowed any but its own subjects to trade with its colonies. France, a richer country than Britain and with a larger population, could find practically no outlet for her goods except within her own borders, and her domestic market was further limited by internal customs barriers and unwise government regulations. Germany was in an even worse condition. Divided politically into a mosaic of petty states, each with its independent tariff, her home market was split up into fragments and her domestic trade strangled. The want of a strong central government had other disadvantages. It prevented Germany from taking any serious part in the struggle for colonial markets, and what was worse, it enabled her more powerful neighbours to make her a battle-ground on which to fight out their quarrels. For centuries, Germany was the cockpit of Europe, and every European war ravaged her fields and drained her resources. It is not surprising that her economic development remained fixed at the point it had reached in the Middle Ages, and that German commerce and industry retained medieval characteristics till the middle of the nineteenth century. The political obstacles to economic progress were not cleared away until the establishment of the Empire in 1871, an event of capital importance in the economic as well as the political history of Germany.

Britain, besides her sole possession of an extensive overseas market, had other advantages which enabled her to play the part of an industrial pioneer. She had the necessary capital for making industrial experiments. Her foreign trade enabled her merchants to accumulate resources and her efficient banking system allowed these resources to be used to the best advantage. The social and political condition of the country was favourable to industrial progress. Within her frontiers, Britain enjoyed complete freedom of trade and her insular position saved her from the disastrous consequences of the wars which ravaged the Continent. The worst abuses of feudalism had disappeared from her social system, and the doctrine of equality before the law saved Englishmen from the tyranny of class privilege. There was no country where the ordinary man enjoyed a greater degree of civil and religious liberty. Political rights, it is true, were the monopoly of a small class, and the government was in the hands of a landowning aristocracy. But the English ruling class regarded trade and industry with great respect and sought to foster them by all the expedients which the current economic philosophy could suggest. Class distinctions were neither so pronounced nor so insurmountable as on the Continent. Intermarriage between the landowning and other classes was common, and this infusion of new blood not only invigorated the patrician stock, but helped to keep the aristocracy in touch with the rest of the nation. While her chief rivals were still in the grip of an obsolete feudalism, Britain possessed a flexible social system which could respond easily and quickly to changes in economic conditions.

The first result of the Industrial Revolution was an important change in industrial technique which may be briefly described as the substitution of machines for tools. The machine and the tool are alike in being material instruments which enable man to perform certain operations more dexterously than with the naked hand. The chief difference is that the tool is set in motion by man's physical strength, the machine by some natural force like wind, water or steam. Previous to the eighteenth century the invention of machines had made small progress owing to the difficulty of finding a good motive-power. Wind was cheap but unreliable. Water was strictly limited by conditions of place. The problem was first satisfactorily solved by the invention of the steam-engine. Steam suffers from none of the disadvantages of wind or water. It is independent of the weather or the seasons and it is not limited by conditions of place. The power can be created at the precise spot where it is wanted and in the exact proportion desired. Steam made practicable the general adoption of machine-methods of production and the invention of the steam-engine is rightly described as the central fact in the Industrial Revolution.

The motive-power of steam was known as far back as classical times, but was put to no practical use till the seventeenth century, when Papin, a French refugee living in Germany, applied it to move a piston in a cylinder. Thereafter, stationary engines were constructed on this principle and used to pump water out of mines. An engine of this kind, designed by Newcomen, was widely used in England in the eighteenth century. The principle of Newcomen's engine was the creation of a vacuum in the cylinder into which the piston was forced by the pressure of the outer air. It was therefore as much an *atmospheric* as a *steam*-engine. The vacuum was created by alternately heating and cooling the cylinder, which involved a considerable waste of fuel.[1] The defects of the Newcomen engine were remedied by James Watt (1736–1819). He first conceived the idea of a separate condenser, a chamber attached to the cylinder, into which the steam could be admitted and condensed, without the necessity of cooling the cylinder itself. Next he devised a method by which steam and not atmospheric air could be used to move the piston. And lastly, and most important of all, he adapted the piston to rotary motion, making it capable of turning a wheel and driving machinery.

The efforts of the early machine-builders were seriously handicapped by the want of a skilled craft of engineers. The first steam-engines were built by a miscellaneous collection of blacksmiths, wheelwrights and carpenters, whose work was generally so faulty that in many cases, when the parts of the engine were put together, it refused to work. Watt complained that his mechanics supplied him with cylinders one-eighth of an inch wider at one end than the other. Inventors could make models of their inventions but they could not find workmen capable of constructing them on a larger scale. Through the efforts of Watt's partner, Matthew Boulton of Birmingham, something was done to overcome this difficulty. The nucleus of a craft of skilled engineers was created, and the difficulties in the way of accurate workmanship were largely reduced by the invention in 1794 of Maudsley's slide-rest, one of the earliest of the machine-tools which have revolutionized the engineering industry.

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[1] After the steam had been admitted into the cylinder, a jet of cold water was injected, which condensed the steam and created a partial vacuum. The cylinder had then to be reheated.

The first machines were commonly made of wood with a few metal parts. This was quite practicable so long as water was the motive-power, but the introduction of steam-driven machinery made it desirable to use a more durable material. Iron naturally suggested itself, but the making of iron was surrounded with peculiar difficulties in the eighteenth century. The fuel used to smelt the metal from the ore was charcoal, but charcoal was becoming increasingly rare, owing to the growing scarcity of timber, so much so that the English iron industry was threatened with extinction. From this fate it was saved by the discovery that coal in the form of coke might take the place of charcoal. The invention of the coking process was due to an English ironmaster, Abraham Darby, of Coalbrookdale in Shropshire, and it came to be widely used after the middle of the eighteenth century. In 1829, the invention of the hot blast by Neilson enabled raw coal to be used instead of coke, which was of great advantage to countries like Scotland where the native coal was not suitable for coking. Neilson's invention laid the foundations of the prosperous iron industry of the Clyde.

During the nineteenth century the metal industries continued to make progress, the most important advance being the discovery of cheap methods of making steel. Steel is superior to iron by reason of its lightness, hardness and durability. The method of its manufacture had been known for centuries, but it was so costly that its use was limited to a few special purposes, such as the making of sword blades. The first to discover a cheap method of making steel was Sir Henry Bessemer in 1856. The Bessemer process revolutionized the metal industries, but it could only be used with ores that did not contain phosphorus. This was a considerable drawback, which was not remedied until 1878, when two English chemists, Thomas and Gilchrist, discovered a method of removing the phosphorus from the ore by lining the converter with manganese. The Thomas-Gilchrist process had one unforeseen result. It made the phosphoric ores of Lorraine available for steelmaking and was the means indirectly of starting Germany on her victorious industrial career. The general cheapening of steel caused it to displace iron for most industrial purposes, for the making of rails, the building of ships and the construction of factories and dwelling-houses.

The development of the iron industry combined with the increasing use of steam as a motive power led to a growing demand for coal for industrial purposes. Coal and iron are the twin foundations of modern industrialism. A country which is weak in either is at a fatal disadvantage in the struggle for industrial supremacy. France is a notable illustration. Throughout the nineteenth century she has been fatally handicapped by her poverty in coal. Her total output in 1913 was only 41 million tons as compared with 292 millions in the case of Britain and 279 millions[1] in the case of Germany. Her one important coalfield is situated in the north-east and from it she draws half her total supplies. The remainder comes from a large number of small mining enterprises, scattered over the centre, west and south. French coal is not only deficient in quantity; it is also poor in quality. In particular, it is not good coking coal, and this meant that French ironmasters were obliged to follow antiquated methods of production, long after they had been abandoned in Britain. As late as 1846, it was estimated that three-fifths of the pig-iron produced in France was smelted in little charcoal furnaces, scattered up and down the country. Coke did not displace charcoal until the 'sixties. Hardly had this important change been accomplished when a new disaster overtook the French iron industry. By the Treaty of Frankfort in 1871, the valuable iron deposits of Eastern Lorraine, as well as the important ironworks in that region, were surrendered to Germany. It took the French iron industry more than twenty years to recover from this blow. Meanwhile, the researches of French geologists had revealed the existence of rich iron deposits in French Lorraine which were unsuspected at the time of the Frankfort Treaty, and this discovery did something to indemnify France for the losses of 1871. When the Thomas-Gilchrist process made these newly-discovered ores available for the making of steel, the French iron industry took a great leap forward. In steel, in particular, France made greater relative progress before the war than any other European country. But her total output still lagged behind that of Britain and Germany. The restoration in 1918 of Alsace-Lorraine with its deposits of ore and its well-equipped ironworks, enormously increased the productive capacity of the French iron industry. But shortage of fuel, the fatal weakness of French industrialism, still remained, and French ironmasters were unable to profit by the large supplies of ore at their disposal. The want of coal has made itself felt throughout the whole range of French industry. It is the chief reason for the tardy and incomplete industrialization of France.

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[1] Of this, about 88 million tons consisted of lignite, an inferior kind of coal.

The technical progress achieved by industry during the eighteenth and nineteenth centuries reacted on industrial organization. Before the Industrial Revolution, the organization of industry was in conformity with the small scale on which manufacturing operations were carried on. The industrial unit was the workshop, in which the master craftsman laboured alongside his journeymen and apprentices as he had done in the Middle Ages. The medieval organization of craft gilds survived all over Europe. In Britain, these bodies had become moribund, but elsewhere they continued to enjoy very substantial legal powers. In a French or German town, no artisan could practise his trade unless he belonged to the appropriate craft gild, and he was bound by a complicated code of regulations, which minutely prescribed every detail of the industrial process. Originally the gilds had performed useful social functions. They had protected the interests of the consumer and secured a fair reward to the producer. But by the eighteenth century they had degenerated into close oligarchical bodies, using their power for selfish ends, and obstructing by their antiquated regulations the technical progress of industry. Already the more progressive trades had broken through the restraints of the gild system. In most countries, the workers in the woollen industry, the most important industry before the Industrial Revolution, were organized under what came to be known as the domestic system. Industrially there was little difference between this and the older system. The worker still laboured in his little workshop or in his home.[1] But the widening of the market had revolutionized the commercial organization of industry. The distance between producer and consumer had become greater, and it was no longer possible for the craftsman to sell his goods direct to his customers as he had formerly done. It now became necessary to separate the trading function from the industrial function, and to hand it over to a specialist, a kind of capitalist middleman, who supplied the worker with raw material, paid him for working it up, and marketed the finished product. Under this system, the worker had parted with a portion of his economic independence, but his subordination to the capitalist was not so complete as it became

[1] Hence the name, *domestic* system.

in later times. Commercially he was dependent on his employer, but not industrially. He worked to order but not to the orders of a foreman. Within his little workshop, he was still his own master.

The Industrial Revolution put an end to this medieval system of workshop production. The introduction of machinery led to the concentration of the workers in large buildings under the immediate supervision of the employer or his agents. From the point of view of efficiency, the superiority of the factory was unquestioned, and this superiority was so manifest, even in the days before machine production, that attempts were made in England to set up factories as early as the sixteenth century. They broke down, partly owing to the scarcity of capital among the industrialists of the period, partly owing to the passive resistance of the workpeople, who refused to exchange the freedom of their homes for the discipline of the factory. Their opposition was not overcome till the advent of machinery turned the balance in favour of the employer. Against the competition of machine-made goods, the handworker struggled in vain, and he was left with no resource except to enter the hated factory. The workman of to-day who has known nothing else but the factory can have only a feeble idea of what it cost the domestic worker to submit to factory discipline.

The rise of the factory system is only one example of the general tendency towards large-scale production which is characteristic of modern industrialism. The increase in size of the industrial unit has a parallel in the enlargement of the business unit, in the expansion of the one-man business into the partnership, and of the partnership into the limited liability company (see Chap. VI), culminating in the development of various forms of trust organization (see Chap. XV).

In France, the tendency towards large-scale production has been much less pronounced than in Britain or Germany. The typical French industrial unit is not the factory but the workshop. In 1901, out of 600,000 industrial establishments, 80 per cent. employed four workers or less. French industrialists have not adopted mass-methods of production to any great extent. The scarcity of coal has been a serious handicap, and they prefer to specialize in trades where the manual skill of the worker counts for more than the machinery. The manufacture of artistic luxury goods, the celebrated *articles de Paris*, has enabled the hereditary skill and taste of the French workman to be turned to advantage. But it has tended to keep the industrial unit small. The principal exceptions are in the metal and textile trades where large-scale production possesses obvious advantages.

In addition to the tendency towards large-scale production, modern industrialism is distinguished by three characteristics: (*a*) the concentration of population in towns; (*b*) the growth of industrial regions; (*c*) the expansion of foreign trade. In all these respects, the chief industrial countries of Europe resemble each other, but France, owing to her imperfect industrialization, presents important points of contrast. The difference is very noticeable in regard to population. In Britain, Germany and Belgium, the population doubled or tripled itself during the nineteenth century. In France it increased by less than 50 per cent.[1] Moreover, the proportion of the French population which lives in towns is a small one. At the close of the nineteenth century, it was less than one-half, as compared with three-quarters for Britain and two-thirds for Germany. Belgium resembles France in the small size of its urban population. At the 1900 census, the proportion was placed at 43½ per cent.[2]

The growth of industrial regions is due to the tendency of industries to settle in districts which offer them special advantages in regard to raw materials, motive-power, and access to markets. Coal and iron are magnets which attract all industries, and the coal and iron fields have become the centres of busy manufacturing regions, crowded with factory towns and covered with blast furnaces and collieries. The growth of these industrial areas is one of the most significant features of recent social history. In them are concentrated the wealth and the population of the industrial countries. They are the homes of the proletariat, the strongholds of trade unionism and co-operation, and the nurseries of socialism. In regard to housing, town-planning and general welfare, they present problems which are amongst the most perplexing that the social reformer has to solve.

In Britain, the chief industrial districts are roughly six in number: the Black Country (between Birmingham and

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[1] The increase in population between 1801 and 1901 was for Britain (excluding Ireland) 10½ m. to 37 m.; Germany, 20 m. to 56 m.; Belgium, 3½ m. (1831) to 6½ m.; France, 27½ m. to 39 m. France, it must be remembered, lost the two provinces of Alsace-Lorraine in 1871 with a population of 1½ m.

[2] In 1901, Britain (excluding Ireland) had 37 towns with a population of at least 100,000; Germany, 33; France, 15; Belgium, 4.

Wolverhampton); South Wales; South Lancashire; South Yorkshire; the Newcastle area; and the Clyde valley. They are all in the north and the midlands. The Industrial Revolution shifted the centre of wealth and population from the south-east of England, hitherto the most important district, to the north-west.[1] The great industrial regions of Germany are principally three: Silesia, Saxony, and, most important of all, the Rhine provinces, notably the valley of the Ruhr. The industrial activity of Belgium is concentrated in the Walloon provinces, in the great mining and manufacturing area which stretches from Liège in the east to Mons and Charleroi in the south-west. France, as might be expected, shows little industrial concentration. She has no great industrial region except round her only important coalfield, in the north-east. Elsewhere, her industries tend to settle near the small, scattered coalfields of the centre, or near the principal seaports, where a supply of coal may be obtained from abroad. Geographical dispersion is the most prominent characteristic of French industry.

The development of foreign trade is both a cause and an effect of industrialism. The country which specializes in industry must draw its food and raw materials from other countries, and this means an extension of its foreign trade. Britain is the earliest and most conspicuous example of this tendency. At the beginning of the nineteenth century she was the only industrialized country in Europe and she became naturally the workshop of the world. Her industrialists supplied less developed nations with manufactures in exchange for raw materials and food. The exchange was a very profitable one for Britain, because, however cheap manufactured goods became during the nineteenth century, they never became relatively so cheap as agricultural produce. That is to say, the rate of exchange between food and manufactures was more favourable to the manufacturer than to the farmer. It paid therefore to be a manufacturing country. But during the later years of the nineteenth century the situation changed. As other countries became industrialized, manufactured goods became relatively more plentiful, while owing to the growth of the world's population, combined with the exhaustion of the virgin soils of America, food became relatively more scarce. The rate of exchange between food and manufactures became a little less favourable to the industrialist, and the profit which the manufacturing nations could make out of their more backward neighbours began to decline. There is reason to believe that it will continue to decline in the future. Nevertheless, for the time being the advantage rests with the industrial countries, and the character of their foreign trade remains the same ; that is, the bulk of their exports are manufactured goods and the bulk of their imports food and raw materials. In 1913, four-fifths of Britain's exports were manufactures and three-fourths of her imports agricultural produce. In 1910, Germany, in spite of her policy of agricultural protection, was spending £130 millions a year on imported food, while 70 per cent. of her exports were manufactured goods. The position of France and Belgium is somewhat exceptional. Both these countries are largely self-sufficing in regard to food, and this not only keeps down the total volume of their foreign trade, but reacts on their export of manufactures. If they do not need to buy, then they do not need to sell. Between 1900 and 1913, the volume of France's trade (measured in quantities, not prices) remained practically stationary, and was considerably less than that of either Britain or Germany. The proportion of manufactured exports to the whole was little more than half. In the case of Belgium, the proportion was between 30 and 40 per cent.

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[1] Since the war industry has shown a tendency to migrate southwards again.

The Industrial Revolution brought about an important redistribution of wealth and political influence among the nations of Europe. The most striking result was the relative decline in the position of France. Before the rise of industrialism, the two great bases of economic prosperity were a fertile soil and a large population. In both these respects, France was well favoured, and the political supremacy which she enjoyed in Europe from Richelieu to Napoleon rested on stable economic foundations. But the Industrial Revolution made coal and iron more important than fertility and population, and France, fatally weak in one of these factors of industrial success, declined to the second or third place among European nations. Germany, on the other hand, came to the front, because she was rich in the industrial resources which France lacked. 'Not on blood and iron, but on coal and iron was the German Empire founded' (J. M. Keynes). The political hegemony which Germany exercised in Europe before the war rested on a basis of solid industrial progress.

The economic condition of Europe has undergone much less change as a result of the war than might have been expected. In spite of the redrawing of frontiers, the economic position of the belligerents, both victors and vanquished, remains in essentials unaltered. Belgium has shown marvellous powers of recuperation and has quickly recovered from the effects of the German occupation. The character of her economy remains unchanged. France has added to her reserves of iron ore by the recovery of Alsace-Lorraine, but her military victory has done nothing to strengthen the weak link in her industrial armour, her poverty in coal. Her economic future must therefore remain uncertain. Germany has been compelled to make sacrifices of territory which have deprived her of important reserves of coal and iron, but in spite of her heavy losses, she still retains important industrial resources and a large, intelligent and well-disciplined population. It would be rash to prophesy that she will never regain the position she once held among the industrial nations of the world. Britain is still what she was before the war, a manufacturing country, producing for foreign markets. But as has been already explained, owing to the alteration in the rate of exchange between food and manufactures, it is no longer so profitable to be an industrial country. Relatively, it may be said, Britain's resources are declining. At the same time, her population is steadily increasing, and the demand for a higher standard of living is being put forward insistently on behalf of her industrial workers. In these conflicting tendencies there are all the elements of an intricate problem, the gravest, perhaps, which the future holds for this country.

CHAPTER II

THE AGRARIAN REVOLUTION

SINCE the earliest times, the progress of agriculture has been hampered by an important physical fact—the tendency of the soil to lose its fertility under continuous cultivation. If crops are grown without intermission on a piece of ground, the elements of plant nutrition in the soil become gradually used up, and if the process is continued long enough, the land will be stricken with barrenness. How to arrest or overcome this tendency has been the standing problem of agriculturists in all ages. Prior to the modern period, the methods employed for this purpose were principally three: (1) the use of animal manure; (2) the practice of fallowing; (3) the alternation of crops. Of these, the first is undoubtedly the best. Nothing restores the fertility of exhausted soil like animal manure. But for obvious reasons, the amount of it at the disposal of farmers is limited. This was even more true in the Middle Ages than it is to-day. Owing to the absence of winter-roots and the consequent difficulty of keeping animals alive during the winter season, the medieval farmer could not rear more than a limited number of cattle. The only winter-fodder available was the hay which had been raised during the summer, and as this was never sufficient to feed all his animals, the farmer had to make a rough calculation of the number of beasts he thought he could keep alive during the winter and slaughter the remainder.[1] The small number of cattle on the medieval farm restricted the supply of natural manure and compelled the adoption of other methods of restoring the exhausted fertility of the soil. Of these, the most important was fallowing. Each field was left uncultivated every two or three years. This gave the soil a rest and allowed it time to recuperate. During the fallow period, the field was ploughed up two or three times, partly to clear it of weeds, partly to expose the earth to the fertilizing influences of the sun and air. The practice of fallowing was supplemented by the alternation of crops. Different crops take different elements from the soil, and if, say, wheat and barley are grown alternately on the same piece of land, it retains its fertility longer than if one crop is grown continuously. Alternation of crops, however, did not permit the farmer to dispense with fallowing, and in the three-field system, the most advanced form of agriculture known in Europe previous to the eighteenth century, fallowing and alternation of crops were combined. The cultivated land was divided into three large portions, technically known as ' fields ', each of which was cultivated under a three-course rotation as in the following table :

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[1] The carcasses of the slaughtered animals were salted for future consumption. The killing of the beasts took place about Martinmas, and in Scotland an animal slaughtered in this way was known as a mart.

	A.	*B.*	*C.*
1st year . .	Wheat.	Barley or Oats.	Fallow.
2nd year . .	Barley or Oats.	Fallow.	Wheat.
3rd year . .	Fallow.	Wheat.	Barley or Oats.

The three-field system was a form of intensive cultivation. It solved the difficult problem which faced agriculturists when land became scarce and it was no longer possible to take in virgin soil in place of that which was already exhausted. But the system was a wasteful one since it involved leaving one-third of the cultivated area idle every year. This obvious defect in agricultural practice was not removed until the eighteenth century, when the introduction of green crops and winter-roots made it possible to dispense with the fallowing process. The importance of this reform can scarcely be exaggerated. It led to a complete revolution in the art and practice of agriculture, and indirectly produced important changes in the social and economic position of the cultivators of the soil.

The characteristics of the new crops can be briefly described. Winter-roots, e.g. turnips, swedes, beetroot, etc., can be sown in straight rows or drills which allows hoeing by hand or machine to be carried on while the crop is growing. One object of fallowing was to clear the field of weeds by repeated ploughings. This could now be done by planting it with turnips and carrying out periodic hoeings between the rows. The advantage of green crops, e.g. clover, lucerne, rye-grass, etc.,[1] is that they derive most of their nourishment from the air and not from the soil. To plant a field with clover or rye-grass has exactly the same effect as leaving it fallow. The soil obtains a rest. But there is the important difference that the land is put to a profitable use and not allowed to lie idle as in the fallowing process.

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[1] These are artificial grasses, i.e. grass which is specially sown in contrast to grass which grows wild.

The introduction of these new crops made fallowing superfluous. Its place in the old rotation was taken by a winter-root or an artificial grass, and the traditional three-course rotation gave place to a new four-course rotation, e.g., (1) wheat; (2) clover; (3) barley or oats; (4) turnips. More elaborate rotations have since been worked out, running in some cases to eight or nine courses, but they are all based on the same principle—the alternation of cereal crops with artificial grasses and winter-roots.[1]

The development of the new agriculture led to a great increase in the supply of food for animals. To the hay and natural grass which were all that the medieval farmer could reckon on were now added various kinds of winter-roots and artificial grasses. The cultivation of winter-roots solved the problem of keeping cattle alive during the winter, and the annual slaughter of surplus beasts at Martinmas came to an end. The fields of clover and lucerne likewise provided rich pasture grounds for sheep and cattle and a great improvement almost immediately followed in the number and the condition of agricultural live-stock. But the beneficial results of the new agriculture were not confined to cattle-breeding. Arable farming also had its share. The increase in the number of his cattle gave the farmer a larger supply of natural manure and enabled him to increase the yield of his cereal crops. Farmers found that it paid them to devote a proportionately larger part of their land to the raising of animal food. Indeed, it was one of the characteristics of the new agriculture that it led to a steady decline in the extent of land which was devoted to cereal crops as contrasted with that used for animal food. But this contraction in area was accompanied by no diminution in output. Owing to the larger supply of manure available, the smaller area devoted to cereals under the new system produced a greater output than the much larger area devoted to the same purpose under the three-field system. And added to this there was the increased supply of human food which the new agriculture made available in the form of flesh-meat. From every point of view, then, the superiority of the new system to the old was beyond question.

In its early stages this revolution in the art of agriculture was almost entirely confined to England and Scotland. It was British improvers and British farmers who did the pioneer work in testing and applying the new methods. Jethro Tull, an English barrister turned gentleman farmer, invented drill sowing, deep ploughing and machine-hoeing. Viscount Townshend, after his political career had been terminated by the action of his energetic colleague and brother-in-law, Walpole, exerted himself to introduce winter-roots into England and did much to popularize the new four-course rotation in which fallow was replaced by turnips and clover. Robert Bakewell discovered the principles of scientific animal-breeding and within a short space of time more than doubled the average weight of sheep and cattle. Arthur Young and Coke of Holkham were the indefatigable propagandists of the movement, the one by his pen, the other by his successful experiments in practical farming. On the Continent, the new agriculture made its way with difficulty. In France, the small peasant farmers adhered obstinately to their old-fashioned methods and opposed a stubborn resistance to the progress of new ideas. Lavergne, the historian of French agriculture, has to confess that in 1850 French farmers were still at the stage from which English farmers had emerged seventy years before.[1] In Germany, the backwardness of agriculture was even more pronounced. The only bright spot was East Prussia, where the Junker aristocracy, like the English squires, took an intelligent interest in the management of their estates and played the part of agricultural improvers.

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[1] 'This system of interweaving the crops which support cattle, amongst those of corn, is the pillar of English husbandry.'—Arthur Young, *Travels in France*, Vol. II, p. 52.

In the nineteenth century, the art of agriculture continued to make notable advances, chiefly in three directions: (1) the improvement of drainage; (2) the discovery of artificial manures; (3) the invention of agricultural machinery. Drainage is necessary to remove surplus water from the soil which would otherwise stagnate and rot the roots of the plants. The principles of scientific drainage remained unknown until comparatively recent times, but the medieval practice of ploughing fields into ridges served to some extent as a substitute. The furrows between the ridges acted as open drains and helped to carry off the superfluous water. In the eighteenth century, an Englishman, Captain Bligh, invented a method of draining by covered ditches, but about 1820 Bligh's method was superseded by the greatly superior invention of the Scots farmer, Smith of Deanston. The

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[1] Lavergne, *The Rural Economy of England and Scotland*, 1854, *passim*, and *Economie Rurale de la France*, 1860, p. 58.

Deanston process of draining by means of cylindrical tiles of burnt clay rendered all other systems obsolete and its adoption was everywhere followed by a great improvement in the condition of the soil. It also altered the aspect of the countryside by causing the complete disappearance of the once universal custom of ploughing fields into ridges.

The manufacture of artificial manures was made possible by the researches of the great German chemist, Justus von Liebig. In 1840, Liebig published a remarkable book called *Chemistry in its Application to Agriculture*, in which he demonstrated that the chief constituents of plant life were the three substances—potash, phosphorus and nitrogen. This discovery enabled chemists to produce artificial manures which would supply the precise elements required by different crops, and the manufacture of chemical fertilizers speedily grew into an important industry. Phosphates were obtained in the form of bone meal and later of phosphoric slag (a by-product of the steel industry). Potassic salts were derived from the important Stassfurt deposits in Germany, and nitrates were imported from Chili. The farmer became independent of natural manure, and cattle-breeding ceased to be an indispensable branch of husbandry. By means of chemical fertilizers, soils could not only be increased in fertility but entirely reconstituted in composition. The farmer could manufacture the soil that he required, thus becoming in a sense independent of nature.

During the later nineteenth century, agriculturists came to rely more and more on artificial manures, and this naturally excited speculation as to what would happen should the supply become exhausted. In 1898, an English chemist, Sir William Crookes, startled the world by prophesying a grave agricultural crisis for the year 1940. By that time, he calculated, the nitrate deposits of Chili would be exhausted, and agriculture, deprived of its supply of nitrogen, would prove unequal to the task of feeding the world's population. Since then, the discovery of methods of obtaining nitrogen from the air has altered the basis on which Crookes' prediction rested and has inspired the hope that agricultural chemistry will always be able to avert any threatened deficiency in the world's food resources.

The story of the application of machinery to agriculture is too long to relate in detail. Its culmination was the invention, in the third quarter of the nineteenth century, of the mechanical string binder, a machine which not merely reaps the corn but automatically binds it into sheaves. The effect of machinery on agriculture, however, has been much less revolutionary than on industry. This is due to the important part played by nature in agricultural operations. In industry, the transformation of raw materials into finished goods can be carried through completely by machines. In agriculture, the process which transforms the seed into the plant is the work of nature alone. Machinery may prepare the way for the operation of natural forces but it cannot supersede them. There is no mechanical invention which can take the place of the process of organic growth. The chief service which machinery renders to agriculture is to economize the labour required for agricultural operations, and, in an age which is marked by the steady flight of the labourer to the town, this service is by no means an unimportant one.

In its social aspect, the agrarian revolution represents the final destruction of the medieval village community and the displacement of collective husbandry by the modern system of individualist farming. Cultivation in the Middle Ages was carried on by groups, not by individuals. The inhabitants of each village ploughed their fields by joint labour under a compulsory system of agriculture. The rotation of crops and the course of husbandry were settled at the beginning of each season by the assembly of the villagers, and no departure from them was permitted. The village land was divided into three large 'fields' in accordance with the three-field system, and each 'field' in turn was subdivided into 'shots' or 'furlongs' which again were divided into acre or half-acre strips. The holding of each cultivator consisted of a certain number of these strips scattered throughout the three fields. The purpose of scattering the strips was to secure an equitable distribution of the good and bad land. But it was a sacrifice of efficiency for the sake of equality, because it is difficult to conceive of a more inconvenient arrangement from the technical point of view. The compulsory course of husbandry also ruled out all opportunity for individual initiative or invention. The system was one of routine, and the pace was everywhere that of the slowest man.

In the eighteenth century this antiquated system lingered on in most countries of Europe, though in many cases it had undergone important modifications. It was everywhere recognized as a serious obstacle to technical progress and agricultural improvers were anxious to see it swept away. The first country in which this important reform was realized was England. Here, social forces had long been working in favour of individualist farming. Since the later Middle Ages the hold of the English peasant on the land was steadily weakening. At an early period the English landowners came under the influence of commercial ideas and took steps to put their lands to their most profitable use. They interfered with the traditional social arrangements of the Middle Ages, altered tenures, displaced tenants and modified the order of cultivation. The result was to increase the lord's control over the land at the expense of the peasant. In the sixteenth century, the first Enclosure Movement furnished a remarkable example of the working of this new commercial spirit. Wool had become relatively a more profitable commodity than corn, and therefore the landowners sought to substitute sheep-rearing for corn-growing on their estates. The change involved a social upheaval which destroyed the medieval village community over a great part of England.[1] Peasants were evicted and their holdings turned into sheep-runs. Districts were depopulated and whole villages allowed to tumble into ruin. The first step had been taken in the process of dislodging the English peasant from the soil. In the eighteenth century the process was completed by the second Enclosure Movement, which destroyed the last vestiges of communal husbandry in England and put in its place a system of large individual farms cultivated by capitalist tenant farmers. The triumph of individualist farming was accompanied by the complete divorce of the peasant from the land. Where the cultivators on an estate were merely tenants, the change could be made at the simple dictation of the landowner. A redistribution and consolidation of holdings was all that was necessary. But where proprietary rights existed, it was necessary to resort to legal process. Enclosure, in such cases, was carried through by private Act of Parliament. At the request of a majority of the proprietors concerned, an enclosure bill was introduced and passed without difficulty by a Parliament of landowners. Commissioners were appointed to redistribute the land (including the commons) and to give each proprietor a consolidated holding in place of his scattered strips and his rights of pasture over the village waste. The way was now open for the creation of large individual farms. But it must not be thought that the extension of large-scale farming was a necessary and inevitable result of the Enclosure Movement. The purpose of enclosure was merely to create consolidated farms, and once this was accomplished, there was no reason why the farms should not be small rather than big. The triumph of the large farm was due to the almost unanimous opinion of English agricultural improvers in its favour, their minds being doubtless influenced by the brilliant results achieved by large-scale production in industry at the time. In England, the tradition in favour of large farms has always been strong, but it must not be forgotten that on the Continent the bulk of expert opinion favours the small farm. In the eighteenth century, however, the technical superiority of the large holding was an article of belief with nearly all agricultural reformers,[1] and the unhappy experience of the smallholder after the Enclosure Movement seemed to confirm this view. The small cultivator found that a consolidated holding was of less use to him than a dispersed holding with rights of common pasture. He could not raise so many cattle on his small farm as when he had access to the broad commons of his village. Fewer cattle meant less natural manure, and less natural manure meant a smaller output of cereals.[2] The abolition of the commons was an irreplaceable loss to the small cultivator and fatally handicapped him in his struggle against the competition of the large farm. Not even Protection, the stand-by of the continental peasant proprietor, availed to save the English yeoman from extinction. His fate was sealed long before the repeal of the Corn Laws in 1846. After the year 1830, there were few survivors of the class on English soil. The extinction of the yeoman was an irretrievable loss to English social life, and formed part of the heavy price that had to be paid for technical progress. As a consequence, England, almost alone among European countries, is saddled with the baffling problem of a rural proletariat. The sharp distinction between cultivation and ownership is a feature peculiar to the English system. Nowhere else has the separation of the peasant from the land been carried out so systematically and so thoroughly.

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[1] Mainly the Midlands.

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[1] 'Great farms have been the soul of the Norfolk culture; split them into tenures of an hundred pounds a year, you will find nothing but beggars and weeds in the whole county.'—Arthur Young, *The Farmer's Journal*, 1771, p. 161; quoted in Bland, Brown and Tawney's *Select Documents in English Economic History*, p. 531.

[2] The connection between cattle-breeding and cereal-growing was emphasized by Adam Smith. 'In all farms too distant from any town to carry manure from it, that is, in the far greater part of those of every extensive country, the quantity of well-cultivated land must be in proportion to the quantity of manure which the farm itself produces; and this again must be in proportion to the stock of cattle which are maintained upon it.'—*Wealth of Nations*, 1776, Vol. I, p. 252 (World's Classics).

On the Continent, the distinctive features of the agrarian revolution were the emancipation of agriculture from the restrictions of an antiquated feudalism and the transformation of the peasant cultivator into an independent proprietor. The course of development was in exactly the opposite direction from that of the contemporary movement in England. Instead of the lord dispossessing the peasant, it was the peasant who dispossessed the lord. The explanation is to be found in the character of the continental aristocracies. With a few exceptions, they were unenterprising landowners. They left their lands to be exploited by their tenants, and sought an outlet for their ambition in military, political or diplomatic careers. The French *noblesse* was a typical example of an aristocracy of this kind. It was less a landed aristocracy than a court nobility. Its members seldom resided on their estates, preferring to scramble at Versailles for a share in the golden manna which rained on those fortunate enough to capture the royal favour. Habitually impecunious, the French landowner was always willing to part with his land for a consideration, and a ready buyer was invariably found in the peasant who cultivated it. In this way, with the progress of time, land passed steadily into the possession of the cultivators, until, by 1789, it was estimated that nearly two-fifths of the soil of France was in the hands of peasant owners. It is true that the peasant was seldom a full proprietor from the legal point of view. He paid an annual quit-rent for his land, and he remained subject to his lord's feudal jurisdiction, which exposed him to many vexatious dues and charges. But on the other hand, he enjoyed security of tenure and could pass on his holding to his children, so that the most essential rights of property were his. Nevertheless, the quit-rents and the feudal dues formed a heavy burden, and the peasant's discontent was sharpened by the reflection that these payments were absorbed by an idle non-producing class which had long ceased to render any real service to the community.[1] During his third tour in France, Arthur Young met a peasant woman of twenty-eight, who, he says, at no great distance might have been taken for sixty or seventy, 'her figure was so bent and her face so furrowed and hardened by labour'. She complained of the hardness of the times.

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[1] 'The widow is gathering nettles for her children's dinner; a perfumed seigneur, delicately lounging in the Œil-de-Bœuf, has an alchemy whereby he will extract from her the third nettle and name it rent and law.'—Carlyle's *French Revolution*, Vol. I, p. 184.

'Her husband had but a morsel of land, one cow and a poor little horse, yet they had a *franchar* (42 lb.) of wheat and three chickens to pay as a quit-rent to one seigneur, and four franchar of oats, one chicken and one sou to pay to another, besides very heavy tailles and other taxes. . . . It was said at present that something was to be done by some great folks for such poor ones, but she did not know who nor how, but God send us better, for the taxes and dues crush us down.'[1] The deliverance longed for by the French peasant woman was not far off. Her meeting with Arthur Young took place on the 12th of July, 1789. On the 14th, the Bastille fell, and on the 16th the first of the seigneurial châteaux was given to the flames. During the next few weeks the peasants' insurrection spread rapidly over France, and the National Assembly at Paris, absorbed in the discussion of constitutional questions, had to give its immediate attention to the claims of the peasantry. The discussion on the peasant question culminated in the memorable night of the 4th of August, when in a frenzy of self-abnegation the ruling classes proceeded to divest themselves of their privileges, the clergy surrendering their tithes, the *noblesse* their landed rights, the lawyers their immunities. In a single night the whole feudal structure was swept away. Later, when its enthusiasm cooled, the Assembly tried to limit its concessions and to distinguish between those feudal burdens which had been imposed on the peasant against his will, and those, like the quit-rents, which might be considered the result of a free contract between him and his lord. The first were extinguished without compensation, but the peasant was compelled to redeem the second. In practice, however, this distinction broke down, and in 1793 the National Convention made a clean sweep of all feudal payments whatsoever. The result was to give the peasant the free and unencumbered ownership of his holding. From being a sort of hereditary copyholder, he was advanced to the position of a full legal proprietor. This was not the only benefit which the peasant class derived from the Revolution. It relieved them from the heavy burden of the tithe, equivalent to 100 million francs a year, and it enormously reduced the load of national taxation under which they had groaned. Moreover, by the sale of the confiscated lands of the clergy and the nobility, it enabled them to round off and augment their landed possessions. The land settlement of the Revolution proved to be one of its most enduring consequences. It survived the Empire and the Restoration, and was condoned by the two classes which had suffered most from it, by the clergy in 1802 as a condition of their adhesion to Napoleon's Concordat, and by the nobility in 1825, after the State had granted a milliard francs in compensation to the former holders of confiscated lands.

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[1] Young's *Travels in France*, p. 159.

The land system of France has never lost the form which was impressed on it at the Revolution. The distribution of landed property is much wider than in this country. Compared with less than a million English landowners, there are between five and six million landed proprietors in France, and of these 99 per cent. own less than 100 acres. This does not mean that large estates are utterly unknown. There are indeed some districts where they predominate. But generally speaking, the unit of land ownership is small, and France is rightly described as a country of peasant proprietors. It is also a country of small farms. The number of agricultural holdings is roughly 5½ millions, of which 97 per cent. are less than 100 acres in extent.[1] The number of holders of farms is actually in excess of the number of agricultural labourers, 5½ millions as against 3½ millions. Thus the democratic character of French rural organization is strongly marked, and forms a remarkable contrast to the aristocratic nature of the English system, with its hierarchy of large landowners, capitalist farmers and landless labourers.

In Belgium, the emancipation of the peasantry followed on the conquest of the country by the French in 1795. The revolutionary laws against feudalism were put into operation in the conquered territory, all payments for land except ordinary rents were abolished, and a large part of the estates of the Church were confiscated and offered for sale. The result was to give Belgium a social system similar to that of France. Three-quarters of the land to-day is in the hands of a million landed proprietors (equal to 10 per cent. of the population), and of these, all except 5 per cent. own less than 25 acres.[2] The unit of exploitation is also small, 94 per cent. of the holdings being less than 25 acres.

Germany in the eighteenth century was divided into two great areas, separated roughly by the river Elbe, each of which possessed a distinctive type of agrarian organization. Eastern Germany bore a considerable resemblance in its rural organization to England. It was a country of large estates, cultivated for the most part by servile labour. Western Germany, on the other hand, had an agrarian system similar to that of France. The bulk of the land was in the hands of the peasantry, and the average holding was small. The difference between the two regions was mainly the result of historical causes. In the East, especially in Prussia, the Germans were a conquering race, holding sway over a subject population of Slavs. This in itself would be sufficient to account for the existence of a servile peasantry, but a further explanation is to be found in the character of the Prussian Junkers. Like the English squires, they were enterprising landowners, with keen business instincts, and they pursued a similar policy of peasant expropriation. By purchase and forcible eviction, they built up large seigneurial domains, which, unlike the English landlords, they did not let out to tenants, but kept in their own hands and exploited under their personal supervision. The labour supply for the cultivation of these huge estates was obtained by a series of measures which reduced the Prussian peasant to a state of hereditary servitude (*unterthānigkeit*). Technically, serfdom did not exist in Prussia, except in a few isolated cases. The peasant was nominally a free man, but so heavy were the burdens laid upon him and so numerous the restrictions placed on his freedom of movement, that in practice his condition was indistinguishable from servitude. The existence of a strong monarchy, however, acted as a certain check on the tyranny of the landowners, and the Prussian peasants never suffered from the fiendish cruelties which the serfs of Russia and Poland had to endure at the hands of their lords. In the west of Germany, the agrarian system followed the same line of development as in France. The hold of the nobility on the land gradually relaxed, while the landed property of the peasantry increased. Land was held in most cases by life or hereditary tenancy. In the latter case, the peasant enjoyed almost complete rights of ownership, subject to the payment of an annual quit-rent. Holdings were generally small and large seigneurial domains were almost unknown.

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[1] Augé-Laribé, *Le Paysan Français après la Guerre*, p. 27.

[2] Rowntree, *Land and Labour in Belgium*, p. 42.

The emancipation of the German peasantry did not take place as the result of a sudden political revolution like that which snapped the chains of the peasant in France. On the contrary, the process of liberation was a long-drawn-out one, dragging on, in some instances, for wellnigh half a century. It was, moreover, a movement initiated and carried through from above, not forced on the ruling classes from below. In

Prussia, the first steps toward emancipation were taken during the reconstruction period which preceded the national rising against Napoleon. The chief promoters of the reform were the great statesmen, Stein and Hardenberg. Three successive emancipation edicts were issued in 1807, 1811 and 1816. The influence of two different though not wholly opposing sections of opinion can be detected in the provisions of these edicts. On the one hand were the liberal statesmen of the school of Stein, who wished to establish complete economic liberty in the relations between landlord and tenant. On the other hand were the Junkers, keenly alive to their interests, and resolved that nothing in the reform should be allowed to impair their authority over their dependents. In practice, the two points of view did not clash because to institute complete freedom of contract in regard to land was equivalent to delivering the peasant completely into the power of his lord. It simply replaced legal servitude by economic subjection. The provisions of the emancipation edicts were distinctly favourable to the landowners. The sitting tenants were turned into full proprietors but they had to pay a heavy price for their freedom. According as they were life or hereditary tenants, a half or a third of their land had to be surrendered to their lord. In this way the Junkers made large accessions to their territorial domains. To ensure the labour supply which was now more necessary to them than ever, the privilege of emancipation was withheld from the smaller peasants [1] who thus remained bound to render labour services to their lord, while even the emancipated peasants were made liable to work at certain seasons of the year in return for the privilege of gathering firewood on the lord's domain and other concessions. Thus the Junkers were assured of both their regular and their seasonal labour supply.

The execution of the edicts was carried out with great dilatoriness. The Prussian bureaucracy, in full sympathy with the landed class, interposed all the administrative obstacles in its power, with the result that, down to 1848, the work of emancipation made relatively slow progress. The Revolution of that year speeded up the movement and, in 1850, one of the most serious defects in the first emancipation edicts was remedied by the inclusion of the smaller peasants. During the next few years the work of emancipation proceeded rapidly. A reactionary law of 1857 put an end to it by fixing 31st December,

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[1] Those liable for hand services (*handdienste*), as opposed to those who rendered ploughing services (*spanndienste*).

1858, as the last date on which emancipation transactions could take place, but by that time little remained to be done. The majority of the peasants had obtained their freedom.

There is no space to record in detail the emancipation movements in the other states of Germany. In the Rhenish provinces, as in Belgium, emancipation resulted from the French occupation during the Revolutionary and Napoleonic periods. In most other German states, emancipation came later. Laws were passed at various dates after 1815 providing for the gradual redemption of feudal claims. The movement was accelerated by the progress of liberalism in the 'twenties and 'thirties, and in the majority of cases was brought to a conclusion shortly after the Revolution of 1848.

Since the early nineteenth century the distinction between the land systems of eastern and western Germany has remained strongly marked. East Germany is still a country of large estates, while the West has a social system akin to that of France. But on a general view, Germany is a country of peasant proprietors. Three-fourths of the agricultural area is peasant property. Large estates are confined in the main to the one district of East Prussia, and elsewhere tenant farmers are so rare as to be almost negligible.[1] Small-scale farming is also the prevailing practice. The size of the average holding works out at 33½ acres.[2]

In eastern Europe, the great emancipation movement of the nineteenth century was that which liberated the Russian serf. Servitude in Russia, it should be observed, had very little in common with the serfdom which prevailed in western Europe during the Middle Ages. Its origin was late. During the medieval period, the Russian peasant was a free man. He did not begin to lose his liberty until about the fifteenth century. The origin of Russian serfdom is somewhat obscure but it seems to be connected with the rise of the pomiestchiks, a new nobility of service created by the Muscovite Tsars. The pomiestchiks were state functionaries who were rewarded for their services with grants of land. But land was useless without labour to cultivate it, and as the Russian peasantry at this time showed a roving tendency, the pomiestchiks demanded permission to attach them to the soil. This was the first restraint put on the peasant's freedom, but it was

[1] Clapham, *Economic History of France and Germany*, pp. 198–9.

[2] This figure is obtained by dividing the total area by the number of cultivators. If the total *cultivated* area were made the dividend, a higher average would be obtained.

followed by other restrictions which in time degraded him to a level lower than was ever reached by the serf of western Europe. The western serf was protected by law against personal injury from his lord, but the Russian peasant was absolutely defenceless and had often to endure the most refined cruelties at the hands of his proprietor.

The unit of rural organization in Russia was the mir, a village of servile cultivators which reproduced many of the features of the agricultural village community of the West. Cultivation was carried on under the three-field system and there was the same arrangement of dispersed or scattered holdings. But one important point of difference existed. The redistribution and redivision of the land was carried out periodically by the mir, a practice which had died out in western Europe at a very early date. Slavophil writers claim the mir as an institution of native Russian growth and endeavour to trace its origin back to a period before the expulsion of the Mongols. But it is more probable that it was an artificial creation of the Russian government, mainly for fiscal purposes, and that it dates at earliest from the later Middle Ages. Until comparatively recent times, the Russian government made no direct collection of taxes from the peasantry but held the mir collectively responsible for the contributions of its members. It is extremely significant that the decay of the mir followed hard on the institution of direct tax collection by the government at the close of the nineteenth century.

Though the problem of serfdom did not receive serious consideration until the 'sixties, the question of emancipation was frequently discussed during the early years of the nineteenth century, and the nobles showed themselves not unfavourable to it, provided it could be carried through on the same lines as in Prussia. But this involved a sacrifice of land by the peasant to which he was strongly opposed. In the opinion of the Russian peasants the land which they cultivated was their own. It was true that they held it on condition of rendering services to the nobles, but this they argued was because the nobles had once owed services to the State. Since the institution of the Russian bureaucracy, the nobility had ceased to be an aristocracy of service, and the peasants maintained that they were now entitled to obtain the unencumbered possession of their land.[1]

It was impossible to reconcile these opposing views except by the interposition of a higher power, and, in the end, the problem of serfdom was only solved by the personal intervention of the Tsar. Alexander II, when he ascended the throne, was reputed to be a liberal, but the policy of the 'Liberator Tsar' was dictated less by his liberal views than by his conviction that emancipation in some form was inevitable. As he told a deputation of the Moscow nobility, 'It is better to abolish serfdom from above than to await the time when it will begin to abolish itself from below'. The Emancipation Edict was issued in 1861, and its provisions showed that the Tsar was not unmindful of the interests of the nobility. The serfs acquired the status of freemen, but in return they had to surrender a certain portion of their land to their lord, receiving the remainder in hereditary copyhold. The size of the holding allocated to the peasant varied in the different provinces of the Empire, but the average worked out at 22½ acres. The peasant held his copyhold subject to the payment of an annual rent to his lord, but the State made provision for the redemption of this burden. The peasant received an advance of capital which enabled him to purchase the freehold of his land, and in return, the State charged him an annuity of 6 per cent., which included both interest and amortization, and was estimated to wipe out the debt in forty-nine years.

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[1] The peasants' view of their relation to their lords was expressed in the common saying, 'We are yours, but the land is our own'.

The emancipation enabled the nobles to make considerable accessions to their landed property, but in most cases these gains profited them little. Their attempts to exploit their enlarged domains were seldom successful. Partly this was due to the native incapacity of the Russian nobles for estate management, partly to the failure of the Emancipation Edict to ensure them a steady labour supply. The Russian proprietors were not so fortunate as the Prussian Junkers. No section of the Russian peasantry was excluded from the benefits of emancipation and no emancipated peasant was left unprovided with land. The credit for this arrangement rests chiefly with the Tsar, who steadfastly set his face against the creation of a landless rural proletariat. But the difficulty of obtaining labour added considerably to the problems of the Russian proprietors, and many of them had eventually to abandon the attempt to exploit their domains. Extensive sales of land took place, and in 1905 it was estimated that half the landed property possessed by the nobility at the time of the emancipation had since passed into peasant hands. The growing economic weakness of the nobility was one factor which contributed to the success of the revolutionary movements in Russia during the early twentieth century.

The peasants, on their side, were profoundly dissatisfied with the emancipation settlement. The concession of personal liberty had little value in their eyes, while the necessity of surrendering land to their lords excited keen discontent. To the average peasant the whole transaction was unintelligible. Emancipation was described to him as a privilege, and yet the result of it was to deprive him of part of the land which he regarded as his own and to compel him to pay dues to the State for the remainder. He could only explain the apparent contradiction on the supposition that the nobles had substituted an edict of their own for the ukase of the Tsar, and so widespread was this belief that in many districts force had to be employed to make the peasants comply with the law. The exaction of the annual redemption payments gave rise to difficulties. At the request of the proprietors, the rent for the peasants' copyholds had been fixed according to the value of the labour services due from the holding, not according to the value of the land. In many districts, where the soil was poor, the value of the labour services far exceeded the value of the land, and the result was to saddle many peasants with heavier annual payments than their holdings would bear. Arrears rapidly accumulated and the government had eventually to step in and grant a large measure of relief. In 1904 a substantial proportion of the arrears was wiped out, and in the following year all future payments were cancelled as from 1st January, 1907. In this way the peasants at last obtained the full ownership of their copyholds.

The mir was revolutionized by the extinction of serfdom. Disruptive forces were already at work within it, which would inevitably have brought about its dissolution, even if external pressure had not been brought to bear in the same direction. The emancipation was followed by the appearance of economic inequality. A class of rich peasants came into existence, known as koulaks, or devourers of the mir. The koulaks objected to the communal arrangements for the periodic redivision and redistribution of the land, and in many villages their influence was strong enough to bring the practice to an end. The permanent occupation of holdings weakened the collective character of the mir and prepared the way for its dissolution. This event was hastened by the action of the government. With the institution of direct collection of taxes in 1899, the mir ceased to be of use to the

State as a fiscal instrument, while the individualist statesmen who governed Russia at the beginning of the twentieth century disliked it as an example of agrarian communism. The first step towards its dissolution was taken during the ministry of Stolypin. In 1906 an imperial edict authorized the inhabitants of a village to institute permanent occupation of holdings by common consent, or failing that, any peasant who wished might withdraw his holding from the communal system of the mir and occupy it in private ownership. The reform accomplished its object with remarkable rapidity, and in the years before the war, the mir seemed in its death-throes. Between 1906 and 1914, nearly 34 million acres of land were withdrawn from the régime of collective ownership. The outbreak of the Revolution of 1917 brought a temporary interruption to the process. But the Bolshevists were no more friendly to the mir than the statesmen of the old régime. It did not correspond with their ideal of a socialized agriculture, and their legislation with regard to it was conceived in a hostile spirit. In 1920, the practice of redivision was limited to intervals of at least nine years, and in 1922 a Soviet edict practically confirmed the imperial ukase of 1906 by allowing peasants to decline redivision and to withdraw their holdings from the collective control of the village community. Despite these measures, individual farming has made slow progress, and the greater part of the soil of Russia remains under the system of the mir. The proportion of the land cultivated individually is in no province higher than 35 per cent. and in some provinces sinks as low as 1 per cent.

The latest emancipation movement in European history has taken place since the war. Its scene has been eastern Europe and altogether about a dozen countries have felt its influence, viz., Austria, Rumania, Bulgaria, Yugoslavia, Czechoslovakia, Poland, Hungary, Latvia, Esthonia, Lithuania and Finland. The movement is sometimes spoken of as the Green Revolution in contrast with the Red Revolution of the bolshevists. Everywhere it has been marked by the compulsory expropriation of large proprietors and the breaking up of large estates into small holdings for landless peasants. The dispossession of the ancient proprietors has not always been violent. In most cases compensation has been paid but seldom in proportion to the full market value of the land. This great social upheaval has been followed by a remarkable extension of the area over which small farms and small landed properties predominate. There is now practically no European country except Britain where large-scale farming and large landed properties are the rule.

The recent tendency of agrarian development has therefore been to bridge the gap which separates cultivation from ownership. Even in Britain where the separation has been most pronounced, there has been in recent years a remarkable extension of the system of cultivating ownership. The sale of large landed estates which has been so noticeable a feature of the post-war period has enabled many English farmers to acquire the ownership of their farms. Between 1913 and 1921, the number of cultivating owners increased from 48,000 to 70,000. In France, a similar movement has taken place during the same period.[1]

Another feature of modern agricultural development is the persistence of small-scale farming. The advantages of large-scale production are not so pronounced in agriculture as in industry. Natural forces operate seasonally and over a wide area, so that continuous production and concentration of labour are not possible in the same degree. Factory methods seldom pay in agriculture, and there is no inducement to go on constantly enlarging the unit of production. Marx's law of industrial evolution, that the large businesses steadily absorb the small, has received no fulfilment in agrarian development. The small agricultural producer has more than held his own.

Yet the last hundred and fifty years have witnessed notable changes in the economic organization of agriculture. One of these is the increasing tendency of the agriculturist to produce for the market and to specialize in those products which yield the highest profit. In the eighteenth century, a large proportion of the farmer's produce was intended for his own consumption, but the development of communications and the improvement of the means of transport have led to the complete disappearance of subsistence farming. Production for the market has brought with it specialization, not of course in the same degree as in industry, but nevertheless to a not inappreciable extent. An example of specialization on a large scale is furnished by British agriculture. In the 'eighties and 'nineties, British farmers, unable to compete in cereal-growing with the farmers of the New World, concentrated on the production of meat and milk which enjoy a natural protection against foreign competition. Other examples of this same tendency are to be found in the development of market-gardening, dairy-farming, beet-growing, viniculture, etc., while on farms where omni-production is still practised, there is usually one branch of agriculture to which the farmer devotes the greater part of his time and energy. One disadvantage of this development is that it increases the farmer's dependence on the merchant middleman, who, in virtue of his superior economic position, can fix the price and to a large extent determine the distribution of the profits. Socialist writers, anxious to find a partial realization of the Marxian thesis in agriculture, have seized on this point and argued that the cultivator is as much in the power of the capitalist as the industrial worker. The only distinction is that in agriculture it is the commercial capitalist who holds sway, whereas the town worker is subject to industrial capital. This theory is no doubt far-fetched, but it certainly brings out the distinct divergence of interest which exists between the agricultural producer and the middleman. There is much support for the view that most of the cultivator's difficulties are due to the excessive share of his profits which is taken by those who market his products.

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[1] Augé-Laribé, *Le Paysan Français après la Guerre*, pp. 73–85.

The future progress of European agriculture and the possibility of increasing its output beyond the present level must depend mainly on two factors: (*a*) the extension of the cultivated area, and (*b*) the progress of agricultural science. With regard to the first, something may yet be done by means of systematic drainage and afforestation. But the amount of European land which is capable of being treated in this way is not great, and the result on the total output is not likely to be appreciable. It must be accepted that, so far as Europe is concerned, the margin of cultivation cannot be extended much farther. This is indeed true, not only of Europe, but of the world as a whole. The habitable earth is rapidly filling up, and in the view of many authorities [1] the limit of extensive cultivation has almost been reached. If this is so, further progress can only be made through the application of more intensive methods of cultivation, and for these the farmer must rely mainly on the scientist. There is a sense in which the future of the world's civilization may be said to be bound up with the further progress of technical agricultural research. Unless some unforeseen decline takes place in the growth of the world's population, the food problem at no distant date will become a serious one, and will be specially acute in the case of an industrialized continent like Europe which draws so large a proportion of its food-supplies from outside sources. From these dangers the agricultural chemist alone can rescue us. The task which lies before him is both a formidable and a pressing one.

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[1] E.g. Sir Daniel Hall, address to Section M of the British Association, 1926.

CHAPTER III

THE REVOLUTION IN TRANSPORT

THE mechanical inventions which revolutionized industrial production in the eighteenth century produced even more amazing results when applied to the improvement of transport facilities. In no respect, perhaps, does the present age more clearly surpass its predecessors than in the conquest of space. The ease and rapidity with which passengers and goods can now be moved over long distances would have appeared little short of miraculous to the men of two hundred years ago. In itself, this development is a notable human achievement, but it acquires an added importance when viewed in its reactions on the economic system as a whole. Every improvement in the means of transport causes an extension of the market and the extension of the market is the invariable prelude to sweeping economic changes. This is true in a special degree of the period we are considering. The Industrial Revolution, as we have seen, was due in the first instance to the opening up of new overseas markets, which was made possible by important discoveries in the art of navigation. And the movement of industrial change, once started, was carried on to fresh stages by further improvements in the means of transport, by the building of roads and canals, by the development of railways, and by the application of steam-power to navigation. It is this important branch of technical progress that forms the subject of the present chapter.

ROADS

The accounts of many travellers have made us familiar with the wretched condition of the European roads during the eighteenth century. The following quotation from Arthur Young's *Southern Tour* (1768) is typical of many others to be found scattered up and down his books:

> 'Of all the roads that ever disgraced this kingdom in the very ages of barbarism none ever equalled that from Billericay to the King's Head at Tilbury. It is for near 12 miles so narrow that a

mouse cannot pass by any carriage. I saw a fellow creep under his waggon to assist me to lift if possible my chaise over a hedge. The ruts are of an incredible depth. The trees everywhere overgrow the road, so that it is totally impervious to the sun, except at a few places. And to add to all the infamous circumstances which concur to plague a traveller, I must not forget eternally meeting with chalk-waggons, themselves frequently stuck fast, till a collection of them are in the same situation, that twenty or thirty horses may be tacked to each to draw them out one by one.'

A humorous German writer of the late eighteenth century recommended a journey over the north German roads as the best means, next to marriage, by which a man might learn patience. But not only patience was required by the traveller of that time. Courage, good health and physical strength were necessary as well. It was not for nothing that men made their wills before setting out on a lengthy journey. To the perils of highwaymen were added those of accident by the road. Upsets and breakdowns were common incidents in a journey of those days. The great nobleman's lumbering carriage was accompanied by a crowd of running footmen armed with poles to prop it up at the rough parts of the road, and to set it upright again if overset. Even if no accident occurred, travelling by coach was insufferably tedious. The journey from London to Edinburgh took a whole fortnight. So little were the roads adapted for wheeled traffic that most travellers found it safer and more expeditious to travel on horseback. Incredibly long distances were covered in this way. John Wesley, the great eighteenth-century evangelist, performed most of his missionary journeys on horseback and his record during a great part of his life was 8,000 miles a year.

If wheeled vehicles were little adapted for the transport of passengers, they were even less suited for the transport of goods. Heavily laden wagons could make little progress on the soft uneven road-surfaces of those times, and bulky articles like coal or corn were carried in panniers slung on the backs of horses. The travelling merchant with his string of baggage animals was a familiar sight during the eighteenth century. Cost of carriage under such conditions was heavy. In England it cost 20*s.* to convey a quarter of wheat 100 miles by road, while the expense of carrying coal to Manchester from the mines at Worsley, eleven miles away, was sufficient to double its price.

The second half of the eighteenth century witnessed a notable improvement in the condition of the European roads, especially those of France and England. The technical art of making hard, smooth road-surfaces, which had been almost forgotten since Roman times, was revived, mainly through the efforts of English engineers like Metcalfe, Telford and Macadam. But the country which led all others at this time in systematic road construction was France. Her superiority was chiefly due to her excellent system of road administration. While in most other countries the care of the roads was left to the local authorities, in France this duty was performed by the central government. Under Louis XV a state corps of road engineers was created and in 1747 a central school was established for their instruction. Labour for the repair and reconstruction of the roads was supplied by the peasants who were bound to give annually thirty days' personal service for this purpose. This was the burden known as the *corvée*. At the close of the eighteenth century, France had 25,000 miles of first-class road and her broad well-paved *chaussées* were the admiration of all travellers.[1]

During the early years of the nineteenth century the work of extending the French road-system was steadily pursued. Napoleon classified the French roads into imperial (or national), departmental and communal, and an important road law of 1836 added a fourth class, the local roads *de grande communication*. Hitherto, attention had been concentrated on the main trunk roads, but the law of 1836 made provision for the construction of local road systems. In this way many backward districts of France were opened up and made accessible to traders. The extension of the road-system did not cease even after the coming of the railway. Between 1870 and 1900 the road mileage of France actually increased by 40 per cent.

In England the progress of road-building was for long hampered by a defective system of road administration. An old law of 1555 made each parish responsible for the roads which passed through it and imposed on the inhabitants the duty of supplying six days' labour annually for their upkeep. This arrangement was unjust, for the inhabitants of a parish are not necessarily the chief users of its roads, especially if some of them are trunk roads. For this and other reasons, the parish authorities discharged their duties in a very perfunctory manner, and to ensure that the more important roads should be kept in a passable condition, it was necessary to institute what was called the turnpike system. This was the plan of placing toll-bars across roads and levying tolls on all travellers except pedestrians. The system had at least the advantage of providing a fund for the upkeep of the road derived from those who used it. Unfortunately it was permissive only. A private Act of Parliament was required for its adoption, and few road authorities were energetic enough to apply to the legislature for such a purpose. Hence, though toll-bars were first erected in the reign of Charles II, the system did not become common until the second half of the eighteenth century. During that period there was a remarkable development of road-building in England, and the turnpike system was extensively resorted to. Between 1760 and 1774 no fewer than 452 local turnpike Acts were passed by Parliament. For nearly a hundred years after this, England continued to rely mainly on the turnpike trusts for the care of her roads. But in the early nineteenth century, the system was becoming antiquated. The toll-bars impeded circulation and acted as a check to commerce. In the 'forties, popular discontent found an expression in such outbreaks as the Rebecca Riots in Wales.[1] But already the Highways Act of 1835 had laid the foundations of a better system by abolishing compulsory labour and empowering local authorities to levy a rate for the upkeep of the roads. Since then the work of the turnpike trusts has gradually been taken over by the local authorities, though there were trusts which continued in existence until the later years of the nineteenth century.[2] The number of road authorities which at one time was very large (16,000 in 1846) has been reduced in recent years to about 2,000 and a notable improvement has been accomplished by the institution in 1909 of a central Road Fund, chiefly derived from motor taxation, from which grants are made to local road authorities. This is a partial acknowledgment of the principle that the care of the roads should be made a national charge.

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[1] 'I know nothing more striking to a traveller than the roads of Languedoc: we have not in England a conception of such exertions; they are splendid and superb; and if I could free my mind of the recollection of the unjust taxation which pays them, I should travel with admiration at the magnificence displayed by the states of this province.'—Arthur Young, *Travels in France*, p. 42.

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[1] So called from the passage in Genesis: ‘ And they blessed Rebecca and said unto her, . . . let thy seed possess the gate of those which hate them ’. Mobs, led by men disguised in women's clothes, threw down the toll-bars by night. Blood was shed before the authorities succeeded in putting down the riots.

[2] The last turnpike trust was dissolved in 1895. It controlled the Anglesey portion of the Shrewsbury–Holyhead road.

In the remaining European countries the construction of adequate road systems was mainly a nineteenth-century development and in many cases the railway arrived before the work was completed. In 1815, Prussia possessed only 2,500 miles of road as against 30,000 to-day. It was not until the 'fifties that the Prussian government seriously undertook the work of road construction and for long after this the road communications of eastern Germany remained very primitive. The same was true in a greater degree of the countries in the east and south-east of Europe. In 1860, Russia had barely ·01 miles of road for every square mile of territory, as compared with 4·72 in the case of England and 4·84 in the case of France. The corresponding figures for Prussia and Austria were ·98 and 1·6.

It was chiefly passenger traffic which benefited from this great development of road communication. In the eighteenth and early nineteenth centuries the cost of conveying goods by road was still heavy and, wherever available, water transport was preferred. But the new road surfaces were hard and smooth enough to bear rapidly moving wheeled traffic and thus the brief but romantic era of the stage-coach was ushered in. The speed attained by the new form of transit was remarkable, when all things are considered. By the end of the eighteenth century the journey from London to Edinburgh had been reduced from a fortnight to seventy-two hours. In France the pace of the lumbering diligences was slower, but by 1841 it had been progressively increased to the respectable rate of 6 miles an hour, while the lighter vehicles known as *malle-postes* travelled at 10 miles an hour. In the other countries of Europe the state of the roads precluded anything like rapid travelling. In Prussia, for example, a week was still required to do the 366 miles between Berlin and Königsberg.

With the development of steam locomotion there was a relative decline in the importance of the roads, and their main function became merely to act as feeders to the railways. But within the last thirty years the rise of motor traction has been responsible for a remarkable development of road-transport. Questions of road administration and the technical problems connected with road construction have again become of pressing importance. The need for a superior kind of road-surface, capable of bearing the ever-increasing volume of traffic, is an urgent one, while the general scheme of road administration, in Britain at least, requires to be thoroughly overhauled. The new developments have shown up in still stronger light the defects of a system which leaves the care of the roads mainly to the local authorities.

CANALS

Until the railway age, transport by land could not compete in facility or cheapness with transport by water. The roads being what they were, the rivers and the sea offered the easiest channels of communication, and a country like England with its long coast-line and excellent river system was in an exceptionably favourable position for the development of trade. Not even the improvement in the condition of the roads during the eighteenth century availed to diminish the relative advantage of water-transport, and this explains why a great development of the means of inland navigation took place during the very period when the European road-systems were being reconstructed and extended.

The art of making artificial waterways had been worked out by Dutch and Italian engineers in the later Middle Ages, and by the end of the seventeenth century several notable canals were in existence, including the celebrated Languedoc Canal, opened in 1681, between the Bay of Biscay and the Mediterranean. But the great age of canal-building did not begin until the middle of the eighteenth century. The leading part in the movement was taken this time by Great Britain. In her case the stimulus was supplied by the needs of her growing industries, which required some easy means of conveying bulky raw materials like coal, iron and clay. In Brindley, the greatest canal-engineer of the time, she had an untaught genius, who without technical training solved, by sheer force of intellect, the most difficult practical problems. His first canal was opened between Manchester and Worsley in 1761. It was followed by many others, and during the years 1791–4 something like a canal mania took hold of the nation. The result was to endow England with a complete network of artificial waterways which proved of inestimable benefit to her developing industries. The age of canals, like the railway age which followed it, corresponds with a very definite stage in English industrial development.

With the coming of the railway the importance of the canals declined. The blame for this has popularly been ascribed to the railway companies and it is true that the companies bought up about a third of the canal-system which they had little interest in developing. But this is not the whole explanation of what happened. The canal companies themselves were apathetic and unenterprising and made no attempt to meet the competition of the railways by improving their systems and increasing the facilities for water-transport. The great disadvantage of inland water carriage is the frequent necessity of breaking bulk. This might have been overcome if the canal companies had combined and standardized their systems. But they made no attempt to do so. Nor were they ready to adopt such simple devices for the encouragement of through traffic as through rates. There is therefore little reason for surprise that the bulk of their traffic was diverted to the railways. At present, the length of the English inland waterways is about 4,000 miles, but the tonnage carried on them is only a fraction of that borne upon the railways. In 1909, a Royal Commission reported in favour of the nationalization of a great part of the system, but this recommendation has never been acted on.

On the Continent, inland water transport has had a less unfortunate history than in England, due largely to the active help and encouragement which it has received from the State. Belgium is a case in point. The Belgian government commenced the construction of canals almost immediately after the country obtained its independence in 1830 and so systematically was the work carried out that to-day Belgium is one of the most highly canalized countries in Europe. It has 1,400 miles of inland waterway, whereas France with a territory twenty times as large has only 7,500. What is even more significant, the tonnage of its water-borne traffic does not fall very far short of that carried by rail.

In France similar tendencies have been at work. During the eighteenth century the excellence of the French road-system acted as a certain check on canal-building, and on the eve of the Revolution, France had actually a shorter canal-mileage than Germany. But in the early nineteenth century the deficiency was soon made good. After 1815, the government adopted an ambitious programme of canal-building which by 1850 had added 2,000 miles to the French canal-system. Even the development of the railways did not lead to any decline of the State's interest in this form of transport. In 1878 another extensive programme was adopted with the object of reconstructing and deepening the existing canals. Standardization was systematically carried out, so that through traffic became possible over the whole course of the French inland waterways. The result was a remarkable increase in the amount of water-borne traffic which, though considerably less than that carried on the railways, nevertheless stands in a much higher ratio to it than in England.

Germany, in spite of an early start in the sixteenth century, did not make much progress in canal-building till after the foundation of the Empire. In the 'eighties the government took up the question and built a series of canals, many of them, like the Kiel Canal, designed primarily for strategic purposes but fulfilling an economic function as well. At the same time the deepening of the German river-beds was methodically carried out and Germany was enabled to take full advantage of her river system which is very extensive. The total length of her inland waterways, natural and artificial, is nearly 9,000 miles. The proportion of water-borne to rail-borne traffic, though not so high as in France or Belgium, is distinctly higher than in England.

What has been said may give the impression that inland water transport has shown greater vitality on the Continent than in England, but before drawing this conclusion, one important consideration must be kept in mind. The continental canals are for the most part State-managed and State-subsidized, and the majority of them are run at a loss which must be made good out of the pocket of the taxpayer. When reference is made to the cheapness of inland water transport in continental countries, this important fact should not be forgotten. There are, moreover, grave doubts as to the wisdom and the justice of subsidizing one form of transport in preference to others. The sums spent by the State in meeting deficits on the canals might be much more profitably used in extending some form of transport which could be made to pay its own way, railway transport for example. This at all events is the view taken by many competent authorities, both in France and Germany.

Railways

The railway age may be regarded as beginning about 1830. In that year the practicability of steam locomotion was conclusively proved by the success of George Stephenson's little engine, the 'Rocket', which showed itself capable of hauling a 13-ton load at a speed of 29 miles an hour. This result was only reached after a long series of experiments in which many inventors took part. As early as 1769 a steam-driven carriage was invented by the Frenchman, Cugnot, but its career was brief. The aim of the first inventors was to design a steam-coach which might run on the roads as motor-buses do to-day, but the opposition of the road authorities effectually killed this idea and made it necessary to resort to the expedient of a railway track. Such tracks were already quite common in the eighteenth century. They were used for horse-drawn traffic, especially in connection with the transport of coal from the pits to the nearest seaport. When the Stockton and Darlington Railway was opened in 1825, it was meant to be used as a horse track, and it was only the energetic representations of Stephenson, who had been appointed engineer of the line, that induced the directors to try the experiment of steam locomotion. The experiment was a success from the technical point of view. Stephenson's engine obtained a speed of 12 miles an hour. But steam locomotion proved too costly, especially in the matter of coal consumption, to allow of its being used as a normal means of transport and the directors adhered to their original intention of using the line mainly for horse traffic. Stephenson's failure was partly owing to the fact that the Stockton line had not been expressly built for steam locomotion, and some of its gradients were such as locomotives could negotiate only with difficulty. This defect was remedied in the next railway to be built, the Liverpool and Manchester, opened in 1830. A level track was laid and, with an improved engine, Stephenson was able to demonstrate the practicability of steam locomotion not only from the technical but from the economic point of view as well. His success removed the last obstacles to the development of the new form of transport, and prepared the way for the building up of national railway systems in the chief countries of Europe.

In Britain the task of building up such a system was left almost entirely to private enterprise. The State asserted a general right of control, and railway projects had to receive Parliamentary sanction. But the Parliamentary Committees which examined the various schemes were chiefly concerned to prevent the invasion of existing property rights by the railway companies. Their sensitiveness on this point cost the companies heavy sums by way of compensation and added very materially to the initial cost of constructing the

British railway system.[1] It never occurred to the legislators that their powers might be used to promote the laying out of a national railway system on a systematic plan. No attempt was made by the State to map out the country into railway areas or to determine the geographical distribution of the lines. It was left to private promoters to decide which centres should be linked up and which direction the routes should take. Parliament did not even think of enforcing a uniform railway gauge until two gauges were actually in use. The Great Western was built on the broad gauge (7 feet), while the other lines adopted Stephenson's narrow gauge (4 feet 8½ inches). In 1846, Parliament declared in favour of the narrow gauge, but it was 1892 before the last traces of the broad gauge disappeared from the British railway system.

The first railway lines were built by small independent companies, but by 1850 successive amalgamations had created large railway systems like the London and North-Western, the Midland, and the Great Northern.[2] Up to a certain point Parliament encouraged this amalgamation movement, but when in 1853 two of the amalgamated systems, the Midland and the London and North-Western, proposed to unite, it refused its sanction on the ground that the fusion would create a monopoly. In this way it showed its determination to maintain freedom of competition in the sphere of railway transport. But there is probably no sphere in which the advantages of combination are more obvious, and Parliament was powerless to prevent the railways drawing together by means of working agreements, traffic pools and rate conferences. This informal combination movement narrowed the area of competition and produced a suspicion in the minds of railway users that the companies were uniting to exploit them. A demand was made that the State should take measures to protect the interests of the public. Parliament was slow to respond, and no action was taken until 1888 when the Railway Commission, a body first instituted in 1873, was given authority

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[1] The cost was much higher in Great Britain than in other countries. A reviewer writing in 1849 gave the following as the average cost of constructing a mile of railway track:

Great Britain	£56,915
Prussia	10,000
Austria	11,300
Certain German States .	19,000

Quoted in Usher's *Industrial History of England*, p. 459.

[2] The Great Western, it should be observed, was not built up out of amalgamations. It was laid out as a single system from the first.

to fix maximum rates. The Commission set to work and in the course of the next four years issued schedules of rates, some of which were above, some below those already charged by the companies. To make good their losses on the reductions, the companies immediately raised all other rates to the maximum, a proceeding which caused a great outcry among the trading public. Parliament was induced again to take action, and after 1894 the companies had to satisfy the Commission as to the reasonableness of any increase in rates above the 1892 level. The practical effect of this decision was to tie the companies down to the rates prevailing in 1892. The companies were afraid to experiment with the lowering of their rates in case they had difficulty in persuading the Railway Commission to raise them again. Thereafter competition between the different lines ceased to take the form of rate-cutting and became more and more confined to the granting of superior travelling facilities.

All this time the movement towards combination among the railway companies never slackened. The steady fall in railway profits during the early years of the twentieth century helped it on and the number of companies continued to diminish. The final stage was reached in 1921. In that year the railways, which had been taken over by the government in 1914, were handed back to their owners, and the opportunity was taken to carry through an amalgamation movement on a large scale. The whole of the British railway system was divided up among four great companies, the London and North-Eastern, the London Midland and Scottish, the Great Western, and the Southern, to each of which was assigned as far as practicable a definite geographical area. Thus after nearly a century of development, Britain at last obtained something like a rationally planned railway system. The interests of railway users were safeguarded by the establishment of the Railway Rates Tribunal, which took over most of the functions of the old Railway Commission.

On the Continent, the State played a more conspicuous part in promoting railway enterprise than in Great Britain. In the early days of railway development, the continental investor fought shy of railway schemes, and but for State help, the capital required for railway construction would seldom have been forthcoming. In return for its assistance, the State claimed large powers of control, and this explains why until recently so many continental railway systems were State-owned and State-managed.

A typical example of a State railway system is provided by Belgium. Shortly after the kingdom was formed in 1830, the government planned an extensive programme of railway building to be carried out entirely at the public expense. Construction was begun in 1833 and by 1844 Belgium was equipped with a complete system of trunk lines which enabled it to divert to itself a large part of the through traffic of northern Europe. Private enterprise could almost certainly not have equalled this achievement, but on the other hand, the State railways failed to earn profits, the outlay on construction having greatly exceeded the estimates.

Meanwhile, the laying down of lines by private companies had begun. The State offered no objection. It had no desire to discourage private enterprise, and its object in building the trunk lines had been merely to get the work done quickly. After 1850 railway construction by the State practically ceased, but the private lines went on extending until in 1870 they were double the length of the State system. Then the government reversed its policy and decided, mainly for political reasons, to bring the whole of the Belgian railways under State control. The process of buying out the private companies was begun. By 1880 three-fourths of the Belgian system was in the hands of the State and in 1906 the last important private line was taken over. State management led to an improvement in travelling facilities, but whether this was accomplished at the expense of the taxpayer or not is a disputed question, the fact that the railway budget was not kept separate from the State budget making it difficult to draw conclusions from the published accounts.

In France the railways were built as the result of a partnership between the State and private enterprise. When in the 'thirties, the French Parliament attempted to fix the lines of its railway policy, a sharp division of opinion revealed itself. The economists and the business men favoured the English system of private railway building, while the politicians led by Lamartine urged the necessity for State-ownership, or at any rate strict State control. The decision arrived at was in the nature of a compromise. The railway law of 1842 guaranteed to private railway promoters State assistance but exacted in return a measure of State control. The government undertook to provide the land and the road-bed for the lines, while the companies were to supply the rolling-stock and other equipment. In return for its aid, the State received extensive powers of control as regards rates, safety of passengers, etc., and it was further provided that on the expiry of a somewhat lengthy period the lines should become State property.[1] The State further assumed control of the geographical distribution of the railway system. The country was divided up into about half a dozen areas which were to be served by as many trunk lines radiating from Paris. This careful planning is in marked contrast to the fortuitous fashion in which the British railway system was allowed to grow up.

During the Second Empire the building of the main trunk lines was completed, and as the result of an amalgamation movement encouraged by the government, the French railway system was divided up amongst six great companies, each with its prescribed area, namely the Northern, the Eastern, the Western, the Southern, the Orleans, and the Paris-Lyons-Mediterranean. The government was anxious to complete the railway network, and, to encourage the companies to extend, it offered to guarantee a minimum dividend on branch or subsidiary lines built by them, provided that if the profits rose above a certain level, the State should have a right to share in them. The terms of this agreement were settled in 1859 and embodied in what were known as the Franqueville Conventions. In the 'seventies the government adopted the expedient of authorizing the formation of small railway companies to build local lines, but this plan did not prove a success. Most of the small companies fell into difficulties and the State had to take over their lines. By 1882 it was working about 10,000 miles of railway, most of it at a loss. In the following year the government determined to get rid of its burden at all costs and in effect bribed the great companies to take over most of the State lines. The bribe was the offer of a guaranteed minimum dividend on the whole of the companies' systems. It was not anticipated that this undertaking would involve the State in any heavy liability because at the time all the companies except the Western were earning fairly substantial profits. But this prosperous period did not last long. The years of dull trade in the 'eighties produced a fall in railway receipts, and ultimately all the companies except the Northern were driven to apply for the guarantee. During the 'nineties conditions improved, and by 1905 only the Western still found it necessary to accept State aid. As it seemed that this line would never be able to do without State help, the government in 1908 determined to purchase it and work it as a State railway. It was hoped in this way to diminish the drain on the public treasury, but the plan did not answer expectations. State management succeeded no better than private enterprise in making the Western a paying line.

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[1] The date when this shall take place has been postponed by successive conventions. At present the concessions of the French railway companies are due to expire between 1950 and 1960.

The great name associated with the early development of the German railway system is that of the economist, Frederick List. During his residence in America, to which he had been exiled for his liberal opinions, he became strongly impressed with the part that railways might play in promoting the economic development of a nation, and when he returned to Germany in 1832, he became an indefatigable propagandist of railway enterprise. With extraordinary prescience, he foresaw the directions which the main trunk lines of Germany would take and, though no lover of Prussia, he did not hesitate to assign to Berlin its natural rôle as the chief German railway centre. In 1835 a little railway was opened between Fürth and Nuremberg, a distance of 5 miles, but it was soon followed by two more important lines, which were the firstfruits of List's propaganda work, the Leipzig-Dresden Railway in 1839 and the Leipzig-Magdeburg a year later. Thereafter railway construction proceeded in Germany with extraordinary rapidity. The physical and economic obstacles to be overcome were few. Land was cheap and the configuration of the central German plain simplified the technical problems of railway construction. By 1850 Germany had a railway mileage far exceeding that of France. In Prussia, the State did less to help on this development than might have been expected. It limited its assistance to the guaranteeing of minimum dividends and similar devices. But in most of the other German states, the railways were State-built and State-owned from the first.

On the foundation of the Empire, Bismarck wished to complete German unity by the establishment of an imperial railway system. The scheme miscarried owing to the opposition of the South German states, and Bismarck had to content himself with the more limited plan of setting up a State railway system in Prussia. In 1879 the Prussian government began buying up the private lines and within the next thirty years the process was completed. Thereafter Germany had a number of separate State railway systems but no imperial system, except that the imperial government had acquired the railways of Alsace-Lorraine in 1871. The disadvantages of this arrangement were largely overcome by the Railway Office, an institution first established in 1873 to secure co-ordination of the different systems. Through its control of the Railway Office, the imperial government was able to enforce uniformity as regards rates and traffic conditions, to such an extent indeed as to provide some excuse for the popular belief before the war that Germany had a single State railway system.

During the last ten years, the most notable tendency in railway history has been a reaction against State-ownership. Several countries have turned over their State-systems to private management. The British railways which were managed by the government during the war were handed back to their owners as we have seen in 1921. In the same year a similar decision was taken in France, though the Western line and the railway system of Alsace-Lorraine were retained under State management. In 1924 the German State railways [1] were leased to a private company in accordance with one of the provisions of the Dawes Plan, and in 1926 the Belgian government decided to dispose of its lines. Believers in the superiority of private enterprise are naturally entitled to make the most of these facts, but the special circumstances of the post-war period must be kept in mind before conclusions are drawn from them unfavourable to State management. Time alone will show whether this movement represents a permanent tendency or merely a passing phase of modern railway development.

STEAMSHIPS

In the work of applying steam-power to navigation, a prominent part was taken by American inventors. It was one of them, Robert Fulton, who gave the first convincing demonstration of the possibility of driving vessels by steam. His steamer, the *Clermont*, sailed along the Hudson River from New York to Albany, a distance of 150 miles, and accomplished the journey without accident in thirty-two hours. Soon after, improvements in Fulton's invention enabled steamboats to leave the shelter of rivers and inland waterways and venture out to the open sea. In 1819 a steamship actually crossed the Atlantic, though for a great part of the voyage it had to rely on its sails. At this time and for long afterwards, every steamship carried sails for use in emergency. The Atlantic was not crossed by steam-power alone until 1838. In that year the steamships *Sirius* and *Great Western* succeeded in performing the voyage without having recourse to their sails. Just about this time the screw-propeller began to be substituted for the paddle, while in the 'sixties, iron took the place of wood as the common material for constructing ships, to be displaced in its turn later by steel.

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[1] Under the constitution of August, 1919, the German railways had been transferred from the States to the Federal Government.

In spite of these important technical improvements the steamship for long continued to suffer from serious drawbacks. One of these was the small amount of space available for cargo, owing to the heavy consumption of coal by the early marine engines. The amount of fuel which a steamship was obliged to carry, especially for long voyages, left very little room for either passengers or goods. Freights and fares were accordingly high, and steamships had considerable difficulty in making their expenses. Until this difficulty was overcome, the sailing-ship completely outclassed its rival, especially for long voyages. Improved types of sailing-vessel were put on the seas, the most notable being the clipper, which with its long keel, narrow decks and crowded sails created astonishing records of speed. For many years the race home of the clippers with the first of the China tea crop was an exciting annual event. In 1869 the *Sir Lancelot* did the voyage from Foochow to London in just under ninety days. No steamship of the time could have equalled that exploit.

Down to 1870 the merchant fleet of the world was composed mainly of sailing-ships, but thereafter the steamship began steadily to gain ground. The opening of the Suez route in 1869 hit the clippers badly since they could not navigate the canal. Then, in various ways, economies were effected in the amount of cargo-space which steamers required to allocate to fuel. Coaling-stations were established along the principal routes where steamers could replenish their supplies, and, most important of all, the consumption of coal was reduced by the invention of new types of marine engine. The compound engine in its various forms had by 1897 reduced the consumption of coal by at least 60 per cent. It was followed by the steam turbine and the Diesel oil-engine. The greatest economy of all was obtained by the use of oil, of which one ton can do the work of five tons of coal. In addition, oil is easily stored, does away with the necessity of huge steam-boilers, and enables the staff of stokers to be reduced by more than half. In all these ways it sets free cargo-space for other purposes. Only its high price prevents oil from completely displacing coal as marine fuel.

The development of steam-navigation brought with it

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several important results. The sailing-ship was almost completely driven from the seas, though examples of it are even yet to be met with. Punctuality and regularity were introduced into sea-voyages in a way that was not previously possible, and lines of steamers began to ply constantly and according to time-table between important ports. This new development brought about a concentration of capital in the shipping industry and led to the formation of large steamship companies with fleets of liners like the Austrian Lloyd (1836), the Peninsular and Oriental (1837), the Cunard (1839), the Hamburg-America (1847), the North-German Lloyd (1857) and the Messageries Maritimes (1851). But the small ship owner has not yet been crushed out and the seas are covered with swarms of little 'tramp' steamers which flit from port to port, picking up a cargo wherever they can find one. It was the ubiquitous tramp which was responsible for the great fall in freight-charges which took place in the 'seventies and 'eighties of last century.

AIR TRANSPORT

This subject can be passed over with a brief mention. Though, from the technical point of view, the conquest of the air has made phenomenal progress during the last twenty-five years, the problem of applying it to commercial purposes still awaits solution. Only in a restricted sense has the aeroplane been made available for passenger traffic, and in a more restricted sense still for the carriage of goods. Similarly there are important technical problems still to be solved before the airship can hope to rival the steamship and the railway as a carrier of goods and men. It is practically certain that one day air transport will revolutionize commerce, but that is a development which is not likely to be realized in the immediate future.

In conclusion, it should be observed that improvements in the transmission of thought have kept pace with the improvements which we have been describing in the transport of men and goods. The invention of the telegraph and telephone, the laying of submarine cables, the development of wireless, the extension of postal facilities, have all combined to annihilate space and bring the distant parts of the earth into touch with one another.[1] The world has shrunk considerably during the last hundred and fifty years. In the next chapter we shall consider some of the economic consequences of this contraction.

[1] For details of the 'internationalisation' of postal and other services, see Woolf, *International Government*.

CHAPTER IV

THE REVOLUTION IN COMMERCE

IT is important to realize that the continuous buying and selling which are characteristic of modern commercial methods are developments of fairly recent date. Until the beginning of the eighteenth century trade was mainly periodic; that is to say, exchange transactions were for the most part confined to fixed times and places. This was inevitable. When communication was difficult and the volume of trade was slight, the thin and sluggish stream of commerce required to be banked up and conducted through well-defined channels. Under such conditions, the natural centres of traffic were the periodical gatherings of buyers and sellers at fairs and markets, and it was through these institutions that the bulk of commercial business was carried on. The transition to continuous buying and selling began in the late eighteenth century, but the movement made little progress, until the development of the railway and the steamship broke down the physical barriers to communication. Thereupon the stream of trade swelled and overflowed the banks which had been erected to confine it. The limitations of time and space within which the trader had hitherto worked were removed. The area over which commercial transactions took place expanded; the time during which they took place extended; periodic trading disappeared; markets and fairs gradually lost their importance and fresh commercial institutions were created to meet the new conditions. The result was a revolution in the methods of trade, comparable in importance and to some extent in general character to the revolutions already described in agriculture and industry. Its main features will be briefly indicated in what follows.

During the greater part of the eighteenth century trade was still at the periodic stage and the bulk of commercial business was transacted through weekly markets and annual or bi-annual fairs. The weekly market was a centre of local trade, and it should be remembered that nearly 75 per cent. of the trading transactions of the eighteenth century were local in character. Each town had a market to which the farmers from the surrounding district brought their produce and sold it direct to the citizens. Food-stuffs were the chief commodities traded in. The buying and selling were mostly retail and much of it was of the kind which would take place to-day in provision shops. But at the time we are speaking of, shops in the modern sense were almost unknown. A few craftsmen, such as tailors or cobblers, might have stalls attached to their workshops, but there was nothing corresponding to the general retail shop of to-day. The joys of shopping were undiscovered by the housewives of the eighteenth century. They had to lay in their supplies of food at the weekly markets and to rely for most other things on an occasional visit to a fair or on a call from a travelling pedlar. As the opportunity to replenish stocks only came at intervals, it was necessary to keep fairly large supplies on hand, and therefore storage facilities in the shape of roomy cellars and ample larders were a necessity in every respectable house of the time. As showing the change which has taken place since, it is only necessary to mention that modern houses are built without storage accommodation except for coal and, in a few cases, for wine, and that preserving processes like pickling, salting and curing no longer occupy the important place in domestic economy that they did in the eighteenth century.

The weekly market was a place where producers and consumers came into direct contact. Only rarely was the intervention of a middleman required. The fair, on the other hand, was a gathering of dealers mainly. It met once or twice a year and often lasted for several weeks. In contrast to the weekly market, it was a centre of national and even of international trade. Merchants from all countries attended it and the goods exposed for sale had often travelled long distances. A chain of fairs stretched right across Europe and served as stages or resting-points on the great trade routes across the Continent. Among fairs which were still doing a large amount of business in the eighteenth century were Stourbridge, near Cambridge, in England, Beaucaire and Dijon in France, Leipzig and the two Frankforts in Germany, Nijni-Novgorod, Moscow and Irbit in Russia, Sinigaglia in Italy, and Medina del Campo in Spain. At all fairs, the goods bought and sold were physically present. The merchant transported them to the place of sale in lumbering wagons or on the backs of horses, and the purchaser satisfied himself by personal inspection of their condition and quality. There was nothing corresponding to the buying by sample which is so conspicuous a feature of modern commerce. The goods dealt in were necessarily those which had high value in proportion to their bulk and consisted mainly of luxury articles for the consumption of the rich. The daily wants of the ordinary man were supplied almost entirely by the trade which centred in the local market.

Supplementing the more or less regular trade which flowed through the channels of fairs and markets, there was an irregular and itinerant trade carried on by small travelling merchants or pedlars. The pedlar was sometimes a specialist who traded exclusively in one article, like the 'Scotchmen' who sold clothing throughout the English northern counties in the eighteenth century. But more commonly he was a general dealer, carrying the miscellaneous assortment of articles which are traditionally associated with the pedlar's pack. In the east of Europe, these itinerant merchants performed an important economic function. In that predominantly agricultural region, where scarcely any commercial middle-class existed, the pedlar often supplied the only link which united the scattered agrarian settlements to the outer world. In the seventeenth century the peddling trade of Prussia and Poland fell almost entirely into the hands of immigrants from Scotland, of whom there were said to be at one time 30,000 plying their trade in those countries. In spite of the invaluable services which the Scots pedlars rendered to the backward communities of eastern Europe, they were regarded with great dislike by the populations amongst which they worked and subjected to many harassing restrictions. The same prejudice against the pedlar existed in the west of Europe, where he was invariably accused of being a footpad or a highwayman in disguise. The regular merchants, incorporated in their gilds, used their official powers to stamp out what they regarded as an illicit form of trading, and they could always count on the sympathy and assistance of the authorities. Yet in spite of this opposition, the pedlar succeeded in holding his ground until the coming of the railway entirely altered the conditions under which European trade was carried on.

One result of the phenomenal development of transport facilities which took place in the nineteenth century was an alteration in the chief trade routes. Hitherto communication between the different parts of Europe had been maintained for the most part by sea and London had held the position of chief distributing centre for the European trade. Amsterdam and Antwerp performed a similar function on the Continent though in a lesser degree. But the coming of the railway robbed sea-transport of many of its advantages and caused an increasing proportion of European trade to be carried on by land routes. This affected London's position as a distributing centre. Germany from its central position was well qualified to act as a distributing country and a large share of London's entrepôt trade was taken over by various German towns. This shifting of trade routes was one of the many factors which added to the economic importance of Germany in the later nineteenth century.

Another consequence of the development of railway transport was the decay of ancient commercial institutions like the fairs. Even in the eighteenth century many of them were showing symptoms of decline. In 1700 it was remarked that Holland, perhaps the most highly developed commercial country of that time, had ceased to have any fairs at all. In France and England they still existed, though showing signs of decay, but in Germany and the east of Europe they were still important centres of trade. In the nineteenth century the rapid advance of railway locomotion sealed their fate. The decline spread from east to west, from the more advanced countries of Europe to the more backward. The fairs of England and France disappeared first. The German fairs continued to do an increasing amount of business down to the 'fifties, after which they rapidly declined. The Russian fairs retained much of their importance until the eve of the war.

Amongst the new commercial methods which supplanted the older fashions of buying and selling at fairs, an important place must be assigned to purchase by sample. This was a development due to the combined influence of a number of factors, to the improvement in means of communication, to the growth of commercial confidence and honesty, and to the application of various systems of standardization to the staple commodities of commerce. Standardization has revolutionized commercial methods. The different kinds and qualities of wheat, for example, can be classified and named according to a prearranged system, which becomes familiar to all dealers in grain. The purchaser is then no longer under the necessity of personally inspecting the grain he is about to purchase. He is able by a sample to judge of the quality of the whole. Or in the case of some commodities where standardization has been carried out very systematically, samples may be dispensed with, and the goods change hands by description or specification. In such circumstances, the fair with its buyers and sellers haggling over the actual goods has become an obsolete institution. In some of the old centres, like Leipzig and Lyons, so-called fairs are still held, but they have entirely changed their character. They have become mainly industrial exhibitions, by which a country or a region advertises its productions to the world.

The place formerly held by fairs in the European commercial system has been taken by produce markets, exchanges or bourses as they are variously called. These institutions have assumed great importance in the course of the last sixty or seventy years. In their organization they resemble fairs in being gatherings of dealers, but there are important points of difference. On the produce exchange, business is transacted daily, instead of being confined to a few weeks in the year. The goods dealt with are not physically present; they are sold by sample or specification. And trading is more speculative than it ever was or could possibly be at the fairs. Goods are bought and sold in advance, not merely without being handled, but actually before they are in existence. A cotton crop may change hands several times before it has even been planted. The most intricate form of this speculative dealing is the buying and selling of futures, of which it is impossible to explain all the technicalities here. It must suffice to say that they are in essence insurance transactions, by which the producer safeguards himself against any loss which he may undergo through fluctuations in the price of his raw material. If a cotton manufacturer, for example, has undertaken an extensive contract which may take him some time to fulfil, he does not wish his calculations to be upset by any rise in the price of raw cotton during the interval. Accordingly he places an order with a dealer in futures for a certain amount of raw cotton to be delivered by a certain date at a certain price. When the date comes round, the manufacturer seldom takes delivery of the cotton. This is what makes the transaction so puzzling to outsiders. But it becomes perfectly intelligible when it is remembered that the manufacturer is only insuring himself against a rise in price. If the price has risen, the dealer pays the manufacturer the difference between the existing price and the price mentioned in the contract. This sum indemnifies the manufacturer for the loss he sustains through having to pay more for his cotton. If the price has not risen, or if it has fallen, the manufacturer can escape the obligation to take delivery by paying the dealer a sum previously agreed upon. Thus the transaction is like any other form of insurance except that the method of calculating the premiums and the capital sum to be paid is more complicated. The advantage to the manufacturer is that it eliminates one important element of uncertainty from his position. He is able to shift a portion of his risks on to the shoulders of the dealer in futures. The latter indeed may be described as a specialist in risks. He plays the part of a shock-absorber in the economic system, or of a fly-wheel which helps to keep the economic machine running smoothly. As such, his functions are indispensable, and there is no ground for the prejudice against him which has produced such legislation as the German law against futures passed in 1896. By this law, dealings in futures were forbidden in regard to grain, flour and certain important classes of securities. This measure has not been copied in other states, though an attempt was made to secure a similar law for France in 1898. A clearer understanding of the work done by the dealer in futures has removed much of the prejudice which formerly existed against him and has led to a juster appreciation of the services which he renders to the community.

The produce exchange is most commonly a specialized institution on which dealings take place in a single commodity, usually an important food-stuff or raw material. Amongst well-known European examples may be mentioned the cotton exchanges of Liverpool, Havre and Bremen, the woollen exchange of Roubaix-Tourcoing, the sugar exchanges of Prague and Magdeburg, the coal exchange of Essen, the iron exchange of Glasgow, and the various London exchanges, Mark Lane for grain, Mincing Lane for rubber and tea, etc. One exchange which occupies in many ways an exceptional position is that of Hamburg. It is not a specialized institution, all sorts of commodities being dealt in upon it, and its membership is not restricted to a comparatively small class, as is the case with most other exchanges. At Hamburg admission is free and the exchange is attended daily by several thousands of persons.

Railways and steamships enable the produce exchange to tap a much wider area for supplies than was ever possible to the fair. In the case of the more important staples of commerce like grain, rubber, cotton, etc., this area has come to include almost the whole globe. Each exchange is in telegraphic communication with the others and any change in price which takes place on one is immediately flashed to the rest. Thus local variations tend to be ruled out and a single world price is established. This is another way of saying that the market for the chief staples of commerce has become world-wide. The establishment of world-markets in the chief branches of trade is one of the most important commercial developments of the last hundred years.

The commodities dealt with on produce exchanges are seldom manufactured goods in the finished stage. The reason is that such commodities do not lend themselves so readily to standardization as do raw materials or even semi-manufactured articles, and therefore they are not so suited to mass methods of buying and selling. The consumer obtains these goods in a different way, through the labours of a lengthy series of intermediaries, including wholesale merchants, retail dealers and commercial travellers. The last-named have come to occupy a most important position in the modern commercial system. Their function may be compared to that of the nerves in the human body. They act as stimuli. It is they who provoke demand and make supply effective. In this way they provide one of the most essential links in the ever-lengthening chain of middlemen which now stretches between the producer and the consumer. It was in the early nineteenth century that the bagman first made his appearance, and Balzac has immortalized the type in his sketch of the 'Illustrious Gaudissart'. The references in contemporary literature to the earliest specimens of the class do not give us a very high idea of their intellectual culture.[1] But no doubt they possessed the essential qualities of energy and shrewdness. When a young man, Cobden acted for several years as a traveller in muslins and covered 40 miles a day in the course of his rounds.[2] At that time (the 'twenties of the nineteenth century) the bagman literally 'went on the road' and travelled from place to place in his gig. When the railway came, he used the new means of locomotion, but with the advent of the motor-car, he has shown a disposition to return to the road again.

While the produce exchange and the commercial traveller between them were undermining the organization of the fair, the rise of shopkeeping was having a similar effect on the weekly market. The different stages in this important development are somewhat difficult to trace. Craftsmen's shops had been common in all European towns since the Middle Ages, but the modern shop is of a different type. It is kept not by a producer but by a mere dealer in commodities. At the close of the eighteenth century there were shops of this kind in London and Paris. In 1783, Robert Owen, the future manufacturer-philanthropist, was apprenticed to Messrs. Flint and Palmer, an important firm of retail drapers on the Borough end of old London Bridge, where, as he informs us, the assistants had to be powdered, curled and pomatumed every morning before taking their place behind the counter.[1] About the same time there was in Paris, near the Pont-Neuf, a retail shop called the *Little Dunkirk,* which professed to sell ' French and foreign merchandise and every novelty produced by the arts '. These were among the earliest examples of the new form of commercial enterprise. In provincial towns, the earliest shops, apart from the craftsmen's stalls, were usually general stores, but as population increased and customers became used to this mode of doing business, specialized shops gradually appeared. At first they were very unpretentious, but it was not long before they learned to deck themselves out with plate-glass and gilt lettering. The first half of the nineteenth century was the period when the small specialized shop was coming into existence throughout Europe. The second half of the century witnessed the rise of the large and of the multiple shop. The place of origin of both varieties was Paris. In the 'thirties, Parissot, the owner of a small mercer's shop, the *Belle Jardinière,* determined to strike out in a new line and began to specialize in the sale of ready-made clothing. He rapidly built up a large business and retired in 1856 with a fortune of three million francs. Parissot's success was eclipsed in the 'fifties by that of another enterprising Parisian, Boucicaut, who became part-owner of the draper's shop known as the *Bon Marché.* Boucicaut, a Napoleon amongst shopkeepers, entirely revolutionized the art of salesmanship.[2] He marked each article clearly with its price in order to get rid of the old unsatisfactory method of bargaining. He sold good cheap stuff, provided attractive window-displays and advertised widely and judiciously. His employees received a commission on the sales. The success of these methods was remarkable. Between 1852 and 1877 the annual turnover of the business increased from 500,000 francs to 67 millions. Just before the war it was 230 millions. The *Bon Marché* soon found imitators. The *Louvre* was founded in 1855, the *Printemps* in 1863, the *Samaritaine* in 1869 and the *Galéries Lafayette* in 1889. All these shops are of the 'universal provider' type. They occupy palatial buildings, include hundreds of departments and cater for a wide and varied range of wants. But their main business is the selling of drapery and millinery, and their chief customers are women. The directors of these establishments were amongst the first to realize how large a part of the modern man's income is spent by his wife, and their selling methods display an intimate acquaintance with feminine psychology. Few of these shops have branches in the provinces, but their illustrated catalogues are broadcast far and wide and a very large part of their business is done through the post.[1]

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[1] Sam Pogson, for instance, in Thackeray's *Paris Sketch Book*, though a student of Byron, is incapable of expressing himself in correct English.

[2] Morley's *Life of Cobden*, p. 15.

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[1] See his Autobiography.

[2] In Balzac's short story, *Gaudissart II,* there is an amusing account of the selling methods of Parisian shopkeepers before Boucicaut's time.

In the 'eighties and 'nineties the large shop spread from France to other countries, and now examples of it are to be found in all the capitals and important towns of Europe, such as Whiteley's and Selfridge's in London, and Wertheim and Leonhard in Berlin.

The multiple shop represents a different type of organization. It is an example of concentration of capital unaccompanied by enlargement of the business unit. The multiple firm has numerous branches scattered throughout the capital and the provinces, but does not necessarily possess any large central premises. The 'tentacular' shop is the appropriate name suggested for it by a French economist.[2] It first made its appearance in the grocery trade and again the place of origin was Paris. The pioneers were two Parisian grocers, Bonnerot and Potin. In the 'forties, Bonnerot gave up the dishonest practices which were at that time common in the grocery trade and began to give full weight, and to supply unadulterated goods. His commercial integrity had its reward. His business grew and prospered. Potin followed in his footsteps and proved even more enterprising. He established branches in the capital and the provinces, and began to manufacture the goods which he sold. The success of these methods provoked imitation and now the multiple grocery

[1] The growth of the Parisian large shop is the main theme of Zola's novel *Au Bonheur des Dames*.

[2] Professor Gide.

firm is a familiar feature in all European countries. The *Maison Debray* and the *Planteur de Caiffa* are conspicuous examples in France, and *Lipton's* and the *Maypole* in England.

The grocery trade was for many years the chief home of the multiple firm, but latterly it has invaded other branches of retail trade. Already it is strongly entrenched in businesses like the supply of ready-made clothing, the sale of beer and spirits and the retailing of tobacco and cigars, and the area of its conquests is constantly extending. The small shopkeeper is retreating, though fighting every inch of the way. The number of shop assistants in small establishments is a steadily diminishing proportion of the whole, but it is important to remember that it is still in excess of the number employed in large or multiple shops. The small shopkeeper has certain advantages which have enabled him to put up a stout fight against his gigantic rivals. He is generally within easy reach of his customers, he can afford to give special attention to their particular wants, and, as a rule, he is not averse to giving credit. These factors have saved the small shop from the speedy extinction which was rashly prophesied for it at one time by doctrinaire theorists, but whether they will always avail to preserve it from this fate is another question.

The growth of shopkeeping was responsible for important changes in the character of the weekly markets. They did not disappear altogether, like the fairs, but they ceased to be centres of retail trading, which was now monopolized almost entirely by the shops. Like the fairs, their character changed and they became useful institutions for the sale of such goods as could not be standardized and required to be personally inspected by traders before being taken over. Thus the weekly markets [1] have in many cases been turned into daily markets for the dealers who supply large towns with fresh food-stuffs, fish, fruit and vegetables. In most important towns these daily food-markets have been organized by the municipality and provided with covered-in meeting-places. The most celebrated example is that of the Paris Halles. In London the food-markets have not been centralized and the work of the Halles is done by a number of separate markets at Smithfield, Billingsgate and Covent Garden. In some German towns separate halls are provided for retail trading, but at most of the daily food-markets the trading is wholesale.

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[1] Weekly markets of the old type still continue to meet even in towns of a fairly large size. There is one which meets every Friday at Aberdeen.

Looking back on the developments we have been describing, we can observe that modern commercial evolution has displayed three tendencies which may be described under the headings of (*a*) expansion, (*b*) specialization, and (*c*) integration. The tendency towards expansion is the most obvious. The market for the staple commodities of commerce has widened by successive stages from local to provincial, from provincial to national, and finally from national to international. This tendency can be illustrated in the case of an important article of common consumption like corn. In the later Middle Ages the markets for corn were still mainly local. Each town drew its food from a definite agricultural area surrounding it, a symmetrical arrangement which was first disturbed by the growth of large capital cities. The teeming populations of London or Paris could no longer be fed from the limited areas which had formerly sufficed for this purpose and it became necessary to seek supplies farther afield. The market-areas of other towns were invaded and thus a larger regional or metropolitan corn market, as it has been called,[1] came into existence. This wider market included in some cases foreign sources of supply. Thus, in the sixteenth century, London drew part of its corn from the Baltic countries. By degrees a trade grew up between the different countries of Europe. The rich cornlands of Poland and Prussia sent grain to the Mediterranean, and England exported corn to the Continent under the stimulus of the Corn Bounty Act down to the second half of the eighteenth century. By this time it could be said without exaggeration that there was a European market for corn. The lands of the Vistula basin were still the chief sources of supply, and Dantzig continued to be the chief exporting port until the middle of the nineteenth century, though after 1815 an increasing amount of corn was sent to northern Europe from the Black Sea. No further important change took place until the 'seventies, when the development of steam navigation opened up sources of supply in every corner of the globe, and the market became world-wide. The change in the situation is shown by the position of Britain which at the close of the nineteenth century obtained all but a small fraction of her wheat supply from abroad and three-fourths of it from such distant markets as Canada, the United States and Argentina. Moreover, the development of corn exchanges in telegraphic communication with each other has smoothed out the diversity of corn prices which was so noticeable in the eighteenth century, not only between countries but between different districts within the same country. In 1760 the price of corn in London was twenty-three shillings a quarter, while at Gloucester, only 100 miles away, it was 37*s.* 4*d.* To-day the same prices rule for grain in the corn exchanges of London and the wheat-pit of Chicago.

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[1] Gras, *Evolution of the English Corn Market.*

The development of a world market in corn is only one example of a general tendency. The number of commodities entering into international trade is constantly increasing, and what is even more significant, their general character has changed. The place of the luxuries which featured so prominently in the foreign trade of the Middle Ages has now been taken by articles of popular consumption. The main function of international commerce is no longer to supply the wants of the rich but to satisfy the needs of the poor. At a dinner given by the millionaire Carnegie to the members of a pan-American congress in 1890, it was stated that the whole world had contributed to the menu provided for the guests. But the same boast might be made by the poor man about the satisfaction of his daily wants. Several continents have been ransacked to supply them. The wool for his clothing probably comes from Australia, the wheat for his bread from America, his tea, coffee and rice from Asia. Similar instances could be multiplied indefinitely. International trade is slowly fusing the world into a single economic unit and in so doing is opposing a powerful unifying force to the disruptive influences of political nationalism. As Cowper wrote:

> 'The band of commerce was designed
> To associate all the branches of mankind,
> And if a boundless plenty be the robe,
> Trade is the golden girdle of the globe.'

Despite the unfortunate part it has sometimes played in provoking national rivalry, trade has been a great civilizing agency in history and a powerful influence making for international solidarity.

The tendency towards commercial specialization can be illustrated in various ways. In the first place, trading itself has become a highly specialized employment. In the later Middle Ages, industrial and commercial functions were frequently combined. The craftsman not only made but sold his goods. This was possible so long as the market was a narrow one, but every extension of its limits strengthened the tendency to specialization. The function of buying and selling became more and more exclusively the business of specialized merchants, and the numbers of the mercantile class steadily increased. Its growth during the last sixty or seventy years has been exceptionally rapid. About 1860 the proportion of the population engaged in commercial pursuits was in most European countries less than 6 per cent. By the close of the nineteenth century it had risen amongst the industrialized nations to between 12 and 14 per cent. This is one sign of the important part which production for exchange plays in the modern industrial system. The commercial classes are not producers, in the technical sense at least, but they are as essential to the productive efficiency of the industrial machine as the non-combatant services to the fighting efficiency of an army. Without them, industrial specialization which has added so much to the productive capacity of the Western nations would be impossible. In some quarters there has been a disposition recently to disparage the services rendered by the middleman and to revive the prejudice against him which was so strong in the Middle Ages. It is true that in some branches of trade the number of middlemen may be excessive or their charges too heavy. These are particular cases which must be decided on their merits. But the general proposition that under modern conditions the middleman is an indispensable factor in production does not admit of dispute.

At the same time, as the division between industry and commerce has become more pronounced, specialization within commerce itself has been carried to great lengths. Some of the ways in which this tendency has shown itself may be briefly enumerated. There is a sharper distinction than ever between wholesale and retail trade. Wholesale trade takes place between dealers ; retail trade between dealers and consumers. Until the nineteenth century the lines between the two were frequently blurred and the same merchant might engage simultaneously in wholesale and in retail trade. But now the two great branches of commerce are rigidly differentiated. Similarly the old type of merchant who dealt in several lines has had to give place to the mercantile specialist. The specialized exchange has supplanted the fair, and the specialized shop, the general store. Finally, there has come into existence a great army of specialized commercial functionaries, brokers, commission agents, commercial travellers, etc., each of which devotes himself exclusively to one particular branch of the great work of buying and selling goods.

The tendency to integration is later in date than the others. It results from a reaction against excessive specialization and leads to the reunion of economic functions which have been separated. There are three directions in which this tendency may be observed at work, in the establishment of large shops of the ' universal provider ' type, in the invasion by mercantile firms of the field of production, and in the greater share which manufacturers are taking in the business of marketing their goods. This last development is illustrated in the cartell movement, which has led to the establishment of selling agencies through which a number of industrial firms dispose of their goods. But the movement is not confined to wholesale trading only. Manufacturers are endeavouring to control the marketing of their goods right through all the various stages until they reach the hands of the consumer. It is nothing uncommon now for an industrial firm to open retail shops for the sale of its products or to try to establish control over the shops which already exist for this purpose. This tendency has been for long very noticeable in the liquor trade, but the ' tied shop ' is to be found in many other branches of business, especially in the ready-made clothing and tobacco trades. On the other hand, the retail trader has sometimes tried to establish control over the manufacturing process, as when the Potin grocery firm in France opened factories for the manufacture of jam, biscuits, soap and chocolate. The general result of all those integrating tendencies is to combine economic functions, which have been severed in the course of the economic evolution of the last few centuries. From one point of view it might seem that economic organization had reverted to an earlier type. But economic history does not repeat itself. Even if an old economic organization comes to life again, it is placed in a new environment and must adapt itself accordingly. Between the huge industrial trust which both makes and sells its goods, and the little independent craftsman who was a merchant as well as a producer in the Middle Ages, the differences far outweigh the resemblances. The fanciful idea that economic evolution moves in cycles and periodically returns to the point from which it set out derives no support from recent commercial developments.

CHAPTER V

THE REVOLUTION IN COMMERCIAL POLICY

DIFFICULTY of communication was not the only impediment to commercial expansion in the eighteenth century. Another and no less formidable obstacle was the restrictive commercial policy pursued by the majority of European states. Artificial restraints were imposed by most governments on both internal and external trade. The domestic markets of the chief continental countries were cut up by internal customs barriers, the visible reminders of earlier periods of political disunion. France was divided into four customs areas, each with a distinctive tariff. The numerous states of which the Prussian monarchy was composed retained their fiscal independence till the beginning of the nineteenth century, while Germany as a whole was divided into 350 independent states, each divided from its neighbours by a tariff wall. A multitude of local tolls and octroi duties imposed further obstacles to commercial intercourse. It was estimated that a hogshead of wine travelling from Roanne to Paris (260 miles) paid no less than twenty tolls, in addition to two internal customs duties at Valence and Lyons. Britain alone among European states in the eighteenth century enjoyed the blessings of internal free trade. The political unity of England had been attained before the machinery of commercial tariffs was elaborated, and her constituent provinces had no traditions of fiscal autonomy to safeguard, while the Unions with Scotland and Ireland abolished the customs barriers which formerly existed between the separate kingdoms. The United Kingdom formed the largest area in Europe over which trading could be carried on without artificial restraint. In her undivided domestic market, Britain possessed an important advantage over her continental rivals, which contributed in no small degree to her superior economic progress during the later eighteenth century.

The regulation of foreign trade at this time was marked by the pursuit of national interest in its narrowest and most selfish form. During the sixteenth and seventeenth centuries the growth of great national states like France, England, Spain and Holland led to an intensification of national feeling which found its appropriate reflection in a nationalist system of economics. By degrees there grew up a collection of economic maxims to which the name of the mercantile system has been given. The mercantilists were not scientific economists. Their system, though it hardly deserves to be called such, was one of applied economics, and their object was a strictly practical one. They sought, not like the modern economist to give a dispassionate analysis of the existing economic system, but to discover economic expedients which would make the nation rich. The mercantilists held firmly to the belief that commerce was a species of warfare in which the advantage of one country could only be obtained at the expense of another, and their commercial regulations were conceived in the narrowest spirit of national selfishness. They were also strong believers in the benefits of State intervention. It was the duty of the government, they held, to harness the economic activities of the nation and direct them towards their proper end. And this end was national wealth, but national wealth only as a means to national power. The mercantilists never allowed economic considerations to outweigh political, and if the interests of the State demanded the sacrifice of material wealth, they unhesitatingly made it. It was only in so far as wealth contributed to the strength and greatness of the nation that they esteemed it. The kernel of mercantilism, as Schmoller has pointed out, was State-making, and its economic regulations were always intended to subserve a political end.

In its details the mercantile system embraced many fallacies. Its central error was a mistaken notion with regard to the nature of wealth. According to the mercantile theory, wealth consists mainly or even entirely of money or of gold and silver bullion. This is a common mistake into which the universal custom of measuring wealth in terms of money makes it easy to fall. But a moment's reflection is sufficient to show that of all forms of wealth, gold and silver are the least capable of satisfying the essential wants of man—as King Midas found to his cost. It is true that gold and silver are important forms of wealth and were possibly more important in the eighteenth century than they are now, on account of their greater scarcity, and of the imperfect development of paper money and credit facilities at the time. But this is not sufficient to clear the mercantilists from the charge of having seriously misconceived the real nature of wealth. One error led to another. The mercantilist doctrine of the balance of trade arose out of the assumption that the accumulation of a store of the precious metals should be the main object of a nation's commercial policy. If a country's exports exceeded its imports, then the foreigner must pay the balance in gold or silver. A favourable balance of trade became the end to be attained by commercial regulation and all the practical expedients favoured by the mercantilists had this as their object. Imports were discouraged by heavy duties and prohibitions imposed on foreign goods. Exports were encouraged by bounties and by the artificial stimulation of domestic agriculture and industry. Navigation laws were passed to secure the country's carrying trade for native shippers. The doctrine of the balance of trade supplies the link which binds the different parts of the mercantile system together. As Forbonnais [1] put it, 'The balance of trade is the true balance of power'. In this concise statement are summarized the three chief steps in the mercantilist argument. (1) A favourable balance of trade secures a supply of the precious metals. (2) A plentiful supply of the precious metals makes a country rich. (3) A country which is rich is also powerful.

An important contribution to mercantilist thought was made by the seventeenth-century English writer, Thomas Mun (d. 1641). In his posthumous work, *England's Treasure by Foreign Trade*, Mun drew a distinction between a general and a particular balance of trade. By the first he meant the balance of a country's trade with all other countries taken together, by the second, the balance of trade with some particular country. Mun proceeded to argue that the general balance alone mattered, and that provided it was favourable the particular balances could be left to take care of themselves. Like so many of the mercantilists, Mun wrote with a practical object. He was a director of the East India Company and he wished to vindicate the Indian trade from the charge of causing a drain of bullion from England. Mun could not deny that the Company exported silver to the East. It had a clause in its charter expressly allowing it to do so. But he maintained that of the oriental goods brought by the Company to England, a large proportion were afterwards re-exported to the Continent and in this way caused an inflow of bullion into England greater than the quantity originally exported to purchase them. The argument was ingenious and won general acceptance. Mun's treatise came to be regarded as the authoritative textbook of mercantilism in England. But, somewhat curiously, his doctrine of the relative unimportance of the particular as compared with the general balance of trade never won more than theoretical assent. In practice, the custom of discriminating between the trade with different countries continued to be observed after as before the publication of Mun's book. Thus the trade with France was disapproved on the ground that it caused a drain of bullion from England, and at different periods during the later seventeenth century and consistently from 1713 to 1786, prohibitive tariffs reduced the trade between the two countries to insignificant dimensions.[1] With Portugal, on the other hand, the balance of trade was held to be favourable, and the Portuguese trade was encouraged by the Methuen Treaty of 1703 which gave Portuguese wines a preference over French in the English market, and made Englishmen drinkers of port instead of claret. During the greater part of the eighteenth century the embargo on French trade and the Methuen Treaty were the two chief pillars of the mercantile system in England.

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[1] Forbonnais (d. 1800) was one of the last exponents of the mercantile system in France.

The principles of commercial restriction and monopoly were applied in every department of mercantilist policy, and towards natives no less than towards foreigners. In most European countries the right of engaging in foreign trade was made the exclusive privilege of a small select class of citizens. The British government allowed its subjects to trade freely with only one small area, covered roughly by the territories of France, Spain and Portugal. The rest of the world was divided up for trading purposes amongst a number of joint-stock companies to each of which was allotted a definite trading sphere. The East India Company had a monopoly of the trade with Asia, the African Company with Africa, the Levant Company with the Mediterranean, the Russian Company with the Baltic,[2] and the Hudson Bay Company with North America. No Englishman could trade with any of these regions unless he was a member of the appropriate company. A similar policy was pursued by the other nations of Europe. There were East India Companies in France, Holland, Sweden and Denmark. The trade between Portugal and its important colony of Brazil was in the hands of two joint-stock companies. On all hands, the necessity for a monopolistic organization of overseas trade was assumed as obvious.

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[1] The fact that France was a Catholic and absolutist country, as well as England's chief commercial rival, probably carried as much weight as any conclusion drawn from the customs returns, which, in any case, were very defective.

[2] The Eastland Company also had rights of trading in the Baltic.

The colonial system was in the nature of a supplement to the mercantile system. It was mercantilism applied to the government of overseas possessions. The mercantilist conception of a colony was a very limited one. 'The end of its establishment,' wrote Montesquieu, 'is the extension of commerce not the foundation of a town or a new empire.' This statement supplies the key to the colonial system. It rested on the assumption that colonies had no right to lead an independent existence, that their sole purpose was to minister to the economic needs of the mother-country, to supply it with the raw materials which it required and provide it with an outlet for its manufactured goods. In order to realize these objects, foreigners were rigorously excluded from the colonial trade, and direct trading between the colonies and foreign countries was forbidden, except in the case of the less important articles of commerce. The growth of colonial industries was permitted only so far as they did not compete with those of the mother-country. In these regulations the chief blemish was the cynical disregard for the interests of the colonists, which moved Adam Smith indignantly to denounce the colonial system as 'a manifest violation of the most sacred rights of mankind'. In mitigation of this severe judgment, it must be observed that the colonial system was often milder in practice than in theory and that many of its regulations pressed less hardly on the colonists than their nature might lead us at first to suppose. The suppression of industry was not felt as a hardship in countries which were predominantly agricultural, and the restrictions on colonial trade probably only brought about artificially what would have taken place naturally in a state of freedom. There is every reason to suppose that if the commercial restrictions had been removed, the colonial trade would have continued in most cases to flow through the mother-country as its natural entrepôt. 'A body of regulations to prevent what was never likely to happen' is an epigrammatic but in some ways a not untruthful description of the colonial system.

Owing to local circumstances, there were considerable variations in the form which mercantilism assumed in the different countries of Europe. In France, the interests of agriculture were largely sacrificed in the effort to foster industry.

The export trade in corn was discouraged in order to provide cheap food for the industrial workers and keep down the rate of wages. In Britain, on the other hand, while the interests of industry were not neglected, those of agriculture also received attention, and the export trade in corn was not only permitted but encouraged by means of bounties. In Spain and Holland, the expansion of trade was the chief object aimed at. In Prussia, it was the harmonious development of all the chief branches of national production. But underneath all these differences in form can be detected the influence of the leading idea of mercantilism, the conviction that it is the duty of the State to promote national wealth as a means to national power.

During the eighteenth century the intellectual reaction against mercantilism slowly gathered strength. In France, the school of economists known as the physiocrats preached the benefits of economic liberty, and in England the philosopher Hume demonstrated the errors of the doctrine of the trade balance. But it was at the hands of Adam Smith that mercantilism received its most complete and crushing refutation. In his *Wealth of Nations*, published in 1776, he laid bare with remorseless logic the fallacies on which the system was based, exposed the futility of the measures taken to secure a favourable balance of trade, pointed out the economic superiority of international division of labour over the ideal of national self-sufficiency, and opposed to the doctrine of State intervention 'the obvious and simple system of natural liberty'. Adam Smith's reasoning rested on two assumptions which he treated as axiomatic: (1) that the individual can promote his private advantage by his own efforts much better than the State can do it for him; (2) that the interests of the individual and the interests of society invariably coincide. These two assumptions were in agreement with the individualism and optimism characteristic of eighteenth-century philosophy, and the correspondence helped to win for Adam Smith's contentions a readier acceptance. The rapidity with which the new economic doctrines established their ascendancy over the minds of men is indeed remarkable. Adam Smith himself had written: 'To expect indeed that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it'.[1] Yet within ten years of the publication of the *Wealth of Nations*, a serious breach had been made in

[1] *Wealth of Nations*, Vol. II, p. 51. (World's Classics.)

the English mercantile system. One of the first statesmen to come under the influence of the new economic philosophy was the younger Pitt. It was said at the time that he understood the principles of the *Wealth of Nations* better than their author himself, and during the early years of his premiership he made a determined effort to put them into practice. In 1786 he concluded the Eden Treaty with France which placed French wines on the same footing as Portuguese in the English tariff and swept away at one stroke the two chief props of mercantilism in England, the embargo on French trade and the Methuen Treaty. Within three years the trade with France tripled. But Pitt's further schemes of fiscal and financial reform were interrupted by the outbreak of the French war in 1793, which automatically cancelled the Eden Treaty and postponed the destruction of the mercantile system for another fifty years.

In France, the movement towards greater commercial freedom was checked in a similar fashion. The Revolution of 1789 had made the doctrine of liberty one of the accepted principles of the French constitution and immediate steps were taken to apply it to the different departments of economic life. Complete internal freedom of trade was established by the decree of the National Assembly in 1790, which abolished at one stroke the internal customs barriers and the innumerable tolls and octroi duties which had for so long harassed domestic trade. For the first time France became an economic as well as a political unit. In 1791 the Assembly turned its attention to the tariff and sanctioned changes which marked an important advance in the direction of liberty. A reduction in duties was carried through and the old embargoes and prohibitions were with a few exceptions abandoned. But, as in England, the work of commercial reform was brought to an abrupt conclusion by the outbreak of war with Austria and Prussia in 1792. Embargoes were placed on imports from the chief enemy countries, a policy which was continued and carried to extreme lengths by Napoleon in his continental system (1806–14). The high tariff walls erected round France and her dependencies fostered the growth of new industries which could not exist without protection and enormously strengthened the interests opposed to freedom. When in 1815 the conclusion of peace allowed the work of tariff reform to be resumed, it was found that the favourable moment for it had passed. Under the restricted franchise which prevailed in France from 1815 to 1848, the great landowners and the industrialists enjoyed a monopoly of political power, and both these classes had become strongly attached to protection. The government was prepared for a relaxation of the tariff, but in face of the determined attitude of the legislature, it could do nothing. So far from being relaxed, the tariff was rendered more stringent. In 1819 the landowners secured a corn law, while the ironmasters, 'the prætorian guards of monopoly' as Cobden afterwards called them,[1] obtained a heavy import duty on iron, which almost doubled its price, put a premium on inefficient methods and seriously hampered both railway construction and general industrial development in France. In the 'forties a feeble free trade movement developed under the leadership of the economist Bastiat, who gave a witty demonstration of the fallacies of protection in his *Economic Sophisms*. But the agitation was confined mainly to the Bordeaux district, where the vine-growers, producing for a foreign market, were anxious for the removal of commercial restrictions. Elsewhere it made little progress and the movement was practically brought to an end by the Revolution of 1848, which diverted public attention to new and more engrossing issues.

In Germany, the all-absorbing problem of commercial policy during the early nineteenth century was the attainment of fiscal unity. In 1815 the Congress of Vienna reduced the 350 states of Germany to 39 and formed them into a Confederation under the presidency of Austria. But each state was allowed to retain its fiscal independence, an arrangement against which List entered his famous protest. 'Thirty-eight[2] tariff walls,' he cried, 'impede internal commerce and have much the same effect as if every limb of the human body were tied up so that the blood could not circulate. To go from Hamburg to Austria, from Berlin to Switzerland, ten states must be traversed, ten tariffs studied, ten customs duties paid. . . . Most discouraging is this state of things for men who want to work and trade. With envious eyes they gaze across the Rhine where a great nation can trade freely from the Rhine to the Pyrenees, from the Dutch frontier to Italy without meeting with a single customs-house officer.'

The German customs union so ardently desired by List was established through the agency of the Prussian monarchy, which by this important service qualified itself for the political leadership of Germany. The first step was taken when complete freedom of trade was established within Prussia itself.

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[1] Morley's *Life of Cobden*, p. 758.

[2] Actually, there were 39 states in the German Confederation.

In 1818 the customs barriers between the different Prussian provinces were swept away. Next, the government brought pressure to bear on a number of small states which were completely enclosed by Prussian territory and induced them to surrender their fiscal independence. By 1826 this process was complete. Prussia and its 'enclaves' formed a single customs unit. Finally, a commercial treaty was concluded with Hesse-Darmstadt, out of which arose the Customs Union of the North. Already, two other customs unions were in existence in Germany, the Union of the South between Bavaria and Würtemberg, and the Middle Union between Saxony and Hanover. But the Middle Union proved short-lived, and almost immediately negotiations were set on foot for the fusion of the other two Unions. These reached a successful conclusion in 1833, and in the following year the German Zollverein came into existence.

The Zollverein included eighteen states with a total population of 23 millions. Its most important member and unacknowledged leader was Prussia, but the Prussian government used its authority tactfully and refrained from offending the susceptibilities of the smaller states. In the constitution of the Zollverein, the principle of State sovereignty received ample recognition. Fiscal policy was determined by an annual congress of delegates, the decisions of which required to be unanimous. Thus any single state could veto a proposal approved by all the others. Between the contracting states all customs barriers were swept away and a single uniform tariff was established for the whole area covered by the Union. The proceeds of the customs duties were divided among the member states in proportion to their population, an arrangement which gave the smaller states a larger share than they were strictly entitled to and offered them an additional inducement to enter the Union.

During the next thirty years the area of the Zollverein gradually extended, until it came to include every German state of importance with the single exception of Austria. The exclusion of Austria was due to the opposition of Prussia, which did not wish to share with her chief rival the political prestige which she derived from leadership of the Zollverein. Twice, in 1853 and in 1865, Austria applied for admission, but on each occasion the application was shelved through the skilful diplomacy of the Prussian government. Then, in 1866, Austria was defeated at Sadowa and excluded altogether from the German political system. Prussia took advantage of her victory to remodel the constitution of the Zollverein in a way which enabled her openly to dictate its policy during the few remaining years of its existence. The annual congress, bound to unanimous decisions, was replaced by two assemblies, one representing states, the other populations, and decisions could now be carried by majority votes. In 1871 the Zollverein was absorbed in the German Empire. The Imperial Customs Union embraced all the German states (except the free towns of Hamburg and Bremen which did not come in until 1888) and included also the Grand-Duchy of Luxemburg, which did not form part of the German political system.

Meanwhile in Great Britain the free trade movement had won a notable series of triumphs. Its success was due to the division which the Industrial Revolution had caused in the ranks of the protectionists. The logic of events had converted the British commercial and industrial classes to the views of Adam Smith. The Industrial Revolution had altered the relation in which Great Britain stood to the rest of the world. She was now the only industrialized nation in Europe and her manufacturers were busy flooding the Continent with their goods. Their interest no longer lay in securing the home market, where they had no competition to fear, but in capturing the foreign market, and they were eager to unite with the commercial classes in removing the chief legal obstacles to the expansion of overseas trade. Industrial protection was abolished in Great Britain almost without controversy. The class in whose interest it had been established no longer desired it and there was no one else to defend it. It was quite otherwise with protection to agriculture. The English landowners whom Adam Smith had praised as being ‘ of all people the least subject to the wretched spirit of monopoly ’ now came forward as the chief defenders of the protective system. In anticipation of a fall in grain prices on the ‘ outbreak ’ of peace in 1815, they obtained a notorious corn law which prohibited the import of grain so long as the price was below 80s. a quarter. It was over the question of this and succeeding corn laws that the battle between free trade and protection was fought out in England. Only after a long and bitter struggle was the abolition of agricultural protection ultimately carried.

The three statesmen chiefly responsible for the establishment of free trade in England were Huskisson, Peel and Gladstone. Huskisson during his presidency of the Board of Trade from 1823 to 1827 made several important changes in the tariff, including a reduction in the import duties on wool and silk and the removal of the embargo on foreign silk goods. At the same time, he modified the Navigation Acts by a reciprocity measure, allowing the government to suspend their operation towards those foreign countries which guaranteed British shipping equal treatment. Peel's work was more important and far-reaching. In 1842 and 1845 he carried through two drastic revisions of the tariff which reduced the number of dutiable articles from 1,150 to 590 and made remissions in taxation amounting to nearly £4 million yearly. Peel was sanguine that the deficiency in revenue would be more than made good by increased consumption, but to safeguard himself he reintroduced the income tax which had been first imposed by Pitt in 1798 and dropped on the conclusion of peace in 1815. Peel meant the tax as a temporary expedient only, but it was found so useful that its abolition was successively postponed until ultimately it became a permanent part of the British taxational system.

Meantime an agitation had sprung up against the corn laws. They had been revised in 1828 and 1842, the chief alteration being the introduction of a sliding-scale which adjusted the duty to variations in the price. But the corn laws had not benefited agriculture to the extent that had been hoped. They had proved powerless to avert a series of agricultural crises which had occurred since 1815, the result of breaks in corn prices following on abundant harvests. At this time, it should be remembered, Britain obtained only a trifling portion of her food-supply from abroad. The heavy cost of transport conferred a natural protection on the home producer and foreign corn only arrived when prices were exceptionally high. A bountiful harvest at home therefore immediately sent down the price, and was often the precursor of a lengthy period of agricultural distress. In the industrial districts, on the other hand, the corn laws were unpopular as they were considered responsible for the high price of bread. That the corn laws kept up the price of bread is unquestionable, though to what extent it is almost impossible to determine. All that can be said with certainty is that they raised the price infinitely less than they would do to-day when Britain obtains nine-tenths of her wheat from abroad.[1]

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[1] Corn law reformers, however, professed themselves able to state the exact amount which agricultural protection put into the pockets of the landowners. One of them put it at £50 millions. Such figures were mere guesswork.

In 1838 a number of north of England manufacturers formed the Anti-Corn Law League, of which Cobden and Bright, though not original members, soon became the leaders. It was the League which first taught Englishmen the art of political agitation. Amply provided with funds by its wealthy supporters, it employed a large corps of lecturers, organized innumerable meetings in town and country and poured forth a flood of propaganda literature. Yet in spite of its ceaseless activity and the originality of its methods, the League would have taken much longer to accomplish its purpose, had not an unexpected ally come to its aid. 'Famine,' said Bright, 'against which we had warred, joined us.' In 1845 the potato crop failed all over northern Europe, and a terrible famine decimated the population of Ireland where potatoes had come to form the staple diet of the peasantry. The Irish Famine convinced Peel that the corn laws must be repealed, but all except a small section of the Tory party refused to follow him, and it was only with the assistance of Whig votes that repeal was carried in 1846. Immediately after, Peel was driven from office by what the Duke of Wellington called a 'blackguard combination' of Whigs and discontented Tories.

The repeal of the corn laws sealed the fate of protection in England. Peel's work was taken up and carried to a conclusion by his brilliant follower and disciple, Gladstone. Gladstone carried through two further revisions of the tariff in 1853 and 1860 which reduced the number of dutiable articles to 48 and made a clean sweep of the remaining protective duties. From 1860 onwards Britain was a free trade country.

With the protective system vanished the last remnants of the colonial system. The secession of the American colonies had given it a rude shock, but had led to no important change in its character except that an attempt was now made to conciliate the colonists by granting them preferences on commodities like grain, timber and sugar. In the early nineteenth century the restraints on the colonial trade began to be removed. The trade with India was thrown open in 1813, that with China in 1833. The navigation laws were modified in 1825 and completely abolished in 1849 and 1854.[1] At the same time the colonial preferences were cancelled one after another. Grain went in 1846, sugar in 1854, and timber in 1860. During the middle years of the nineteenth century imperial sentiment sank to a very low ebb. Complete fiscal independence was granted to the colonies and they immediately took advantage of it to establish protective tariffs against the mother-country. Indeed, but for their consciousness that they required the protection of the British fleet, most of the colonies would have seceded altogether. Nor is it likely that such a step would have met with much opposition from the home government. As was said at the time, a party would rather lose a colony than a division, and even Disraeli, the future champion of imperialism, permitted himself to say,[1] 'These wretched colonies will all be independent in a few years, and are a millstone round our necks'. At no time in its history was the Empire nearer disruption than during these years.

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[1] As most of the regulations of the colonial system were embodied in provisions of the Navigation Acts, their repeal meant the all but total abolition of the system.

The victory of free trade in Britain could not fail to produce a certain reaction in its favour on the Continent. In Germany there had always been a strong body of opinion which supported a liberal commercial policy. The Prussian landowners were opposed to any stiffening of the tariff which might react unfavourably on the export of corn from East Prussia. Industry was only slightly developed in Germany before the 'seventies, and the industrial interests, though favouring protection, were not strong enough to bring pressure to bear on the government. In 1841 List published a powerful plea for a protective policy in his *National System of Political Economy*, but the time was not ripe for it and his appeal fell on deaf ears. The tariffs of the Zollverein continued to be moderate right through its history, though latterly the persistent agitation of the growing industrial interests of the South brought about a rise in the scale of duties. In France public opinion was still strongly protectionist, but the establishment of the Second Empire in 1852 put an end to constitutional government, and the Emperor Napoleon III was favourably disposed to a liberal commercial policy. By means of a series of commercial treaties negotiated with the chief European powers, he succeeded in tempering the extreme severity of the French tariff system. The conclusion of the Cobden treaty with Britain in 1860 was followed within a few years by similar treaties with Belgium, Holland, Spain, Portugal, Switzerland, Sweden and the German Zollverein. All these treaties included a most favoured nation clause, so that the commercial concessions secured by one country were automatically extended to the others. Thus a comparatively mild fiscal régime, marked by moderate duties and absence of prohibitions, was established over the greater part of Europe. The effect was seen in the notable expansion of European commerce which took place during the years 1860–80.

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[1] In a private letter written in 1852.

This liberal interlude was succeeded in the 'eighties by a strong protectionist reaction. The growth of nationalist sentiment after the Franco-German War, the development of industry in the chief countries of the Continent, and the invasion of European markets by cheap American corn, were all factors which favoured the movement. In France the treaty régime had never been popular, and the fall of the Empire in 1870 placed a thoroughgoing protectionist at the head of the state in the person of Thiers. The new President set himself to undo the work of Napoleon III, but before he could accomplish his purpose he was driven from office in 1873. The protectionist party soon recovered from this check. In 1877 the electorate returned a large protectionist majority to the Chambers, and a revision of the tariff was carried through in 1881 which completely reversed the policy pursued by France for the previous twenty years. A substantial increase was made in the scale of import duties, especially of those on manufactured goods. The government, however, as has so often happened in France, was more liberal than the legislature, and proceeded to take the edge off the new tariff by negotiating a fresh series of commercial treaties. But the Chambers were not to be balked of their purpose. In 1892 they tied the hands of the government with regard to commercial treaties by instituting a minimum tariff beyond which concessions could not be made. At the same time they raised the average rate of the protective duties and added to their number. Agriculture obtained protection on roughly equal terms with industry and thus a firm alliance was cemented between the two chief branches of the protectionist party. The tariff of 1892 gave France a full-blown protectionist system. A further revision in 1910 brought the tariff up to date but introduced no change in principle. After the war the duties were adjusted to the rapid fluctuations in prices by means of ' coefficients '.

In Germany the liberal tariff which the Empire had inherited from the Zollverein remained unchanged till 1879. Bismarck had at first to rely on the liberals for his parliamentary majority; his finance minister, Delbruck, was a convinced free-trader; and he himself as a Prussian landowner shared the junkers' dislike of anything that might interfere with the Prussian corn trade. But within ten years the situation had changed from the economic as well as the political point of view. Bismarck had broken with the liberals, and the competition of cheap American corn had driven the junkers into the protectionist camp. Meanwhile, the financial needs of the Empire were steadily increasing and Bismarck could think of no other expedient to meet the recurring deficits except an all-round increase in the customs. The imperial constitution had reserved practically every other source of revenue to the federal states. It was therefore chiefly for reasons of finance that Bismarck was induced to carry through a revision of the tariff in 1879, though he justified his action by the stock protectionist arguments. He contented himself, however, with a moderate increase in duties, which nevertheless tripled the revenue from the customs, and at the same time he took steps to avert retaliation on the part of other countries by negotiating a series of commercial treaties, in which he made full use of the political prestige acquired by Germany from her victory in 1871.

When Bismarck was dismissed from office in 1890, most of the signatories to these treaties were preparing to denounce them. Germany's attitude had been unconciliatory and had provoked the saying that she wished to dine without paying her share of the bill. To meet this situation and in order to give the government a freer hand in negotiating future commercial treaties, the new Chancellor, Caprivi, proposed to introduce the device of a maximum and minimum tariff. This policy was strongly opposed by the agrarians, who feared that if commercial concessions were made they would inevitably be at the expense of agriculture. But with the aid of the industrial and trading classes who were interested in the opening up of foreign markets, the government was able to carry its proposals, and during the early nineties, treaties were concluded on the new basis with Austria, Spain, Belgium and Rumania. With France, Germany enjoyed most favoured nation treatment in virtue of the Treaty of Frankfort in 1871. The opposition of the agrarians, however, never relaxed and their persistent agitation at length forced the government to concede a larger measure of protection to agriculture. A revision of the tariff in 1902 established a higher level of food-duties in the interests of the German cultivator. The manufacturers were conciliated by heavy import duties on manufactured goods.

The tariff of 1902 remained in force down to the war. Compared with the tariffs of other European countries, it must be pronounced moderate. The average duty on British goods was only 25 per cent., compared with 34 per cent. in the case of the French tariff and 131 per cent. in the case of the Russian.[1] Since the war no systematic revision of the tariff has been undertaken, but the scale of duties was substantially increased by a minor tariff law of 1925.

The protectionist reaction on the Continent was not without a certain influence on British opinion. It shook the confidence of Englishmen in the infallibility of free trade principles and prepared the way for the rise of a protectionist party. The first sign of the change was the so-called fair trade movement of the 'eighties, which made few converts. In 1903 it was succeeded by the far more influential tariff reform agitation set on foot by Joseph Chamberlain. Chamberlain proposed to use protection for a double object, on the one hand to safeguard British manufacturers against foreign competition, which was now beginning to make itself seriously felt, and on the other to bind the colonies closer to the mother-country by the establishment of an imperial customs union. Unfortunately these two objects were not quite compatible, and the means by which Chamberlain proposed to accomplish the second, an elaborate system of colonial preference, involved the taxation of food, to which the British industrial population has had a rooted repugnance ever since the 'hungry forties'. Chamberlain was able to convert the conservative party to his views, an important advance, since it meant that now there was an official protectionist party in Great Britain, but the electorate remained unconvinced. The war produced little change in public opinion. At the general election of 1923 protection was made a definite issue, but the verdict of the electorate was unmistakably against it. Nevertheless, during the last ten years, important changes have been made in the British fiscal system, which have considerably altered its character. The M'Kenna duties on clocks, watches and motor-cars, imposed during the war to economize shipping-space, were retained on the conclusion of peace.[2] The Safeguarding of Industries Act of 1921 imposed protective duties on the products of certain so-called key industries [1] and authorized industries suffering from foreign dumping to apply for protection to the Board of Trade. In consequence of applications received during the last few years, anti-dumping duties of 33½ per cent. have been imposed on a number of articles such as fabric gloves, gas mantles, wrapping paper, lace, etc. In 1919 the principle of colonial preference was introduced and considerably extended in 1925, when preferences were granted on sugar, tobacco, dried fruits and wines. Finally, in this latter year, duties were imposed on silk and hops, the protective character of which was only thinly disguised. It is impossible to mistake the general trend of these changes or to deny that they have made considerable inroads on the British free trade system.

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[1] Clapham, *Economic Development of France and Germany*, p. 322.

[2] Abolished in 1924 by a labour government, they were restored by the conservatives in the following year.

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[1] The first Board of Trade Schedule of Key Industries contained 6,400 items, each dutiable at 33½ per cent. A supplementary list issued in 1927 added another 496 items. See Hirst, *Safeguarding and Protection*, p. 97.

CHAPTER VI

MONEY, BANKING AND INVESTMENT

MONEY

WHEN the eighteenth century opened, most of the currencies of Europe were on a metallic basis. Some of the poorer countries like Russia or Sweden had a copper coinage, but the commonest metal used was silver, Shakespeare's 'pale and common drudge 'tween man and man'.[1] Gold was too scarce and costly to be used extensively for monetary purposes. In countries where a gold coinage was issued, as in France and England, the gold coins enjoyed no legal superiority over the silver. Both metals were freely coined at the mints and silver coins as well as gold were legal tender to any amount. A monetary system under which two metals circulate on equal terms is known as bimetallism or the double standard.[2] It is a difficult system to maintain in practice since there is a constant danger that one of the metals will drive the other out of circulation. This will take place whenever the bullion ratio—the rate at which the metals exchange against each other in the bullion market—diverges from the mint ratio—the ratio fixed between gold and silver coins by law. An example may make this clearer. Suppose the mint ratio is 1 : 15. This means that one ounce of coined gold equals 15 ounces of coined silver. If the bullion ratio is also 1 : 15, the two metals will circulate side by side. But suppose the bullion ratio changes to 1 : 16, so that one ounce of gold in the metal market exchanges for 16 ounces of silver. Then obviously gold as bullion will exchange for more silver than gold in the shape of coins, and there is a strong inducement to melt down gold coins and trade with them as bullion. This will take place until all the gold coins have disappeared from circulation and the country is left with a single silver standard. If the bullion ratio was to change once more, but this time to 1 : 14, then the process would be reversed, and it would be the turn of gold to drive out silver. Only if a Government is prepared to alter its mint ratio with every fluctuation in the bullion ratio, can a bimetallic system be maintained in practice.[1]

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[1] *Merchant of Venice.*

[2] Some economists object to the name 'the double standard'. They maintain that there can be only one standard to which it is attempted to relate the two metals.

The monetary history of England in the eighteenth century gives a clear illustration of the working of these principles. In the early years of the century the bullion ratio diverged from the mint ratio, and the gold guineas coined by William III drove the silver shillings out of circulation to the no small inconvenience of traders and shopkeepers, who were forced to supply the deficiency of small change by manufactured tokens of their own. Then in the later years of the century, the bullion ratio moved in the opposite direction and silver began to drive out gold. By this time, however, the British Government had become proud of its gold currency and did not wish to lose it. It therefore effectually arrested the disappearance of gold by suspending in 1798 the free coinage of silver, and followed this up in 1816 by definitely adopting a single gold standard, and reducing silver money to the position of a token currency, coined in limited amounts for the purposes of small change.

Meanwhile, two important episodes in the monetary history of Europe had occurred, of which some account must be given. The first was the issue of the assignats in France; the second, the suspension of cash payments in England.

France, during the period of Law's Mississippi Scheme (1717–20), had had a brief but disastrous experience of an inconvertible paper currency, and the memory of that unfortunate experiment had created an invincible prejudice in the minds of Frenchmen against any form of paper money. Accordingly, when in 1790 it was suggested that the National Assembly should balance its Budget by an issue of paper notes, there was strong opposition to the proposal. It was pointed out, however, that the Assembly's notes, unlike those of Law, would be issued on good security, the security of the confiscated church lands, and this, it was maintained, would be sufficient to prevent over-issue and depreciation. Mirabeau with his impetuous eloquence swept aside the arguments of the objectors. 'We are told,' he said, 'that paper money will become superabundant. Of what paper do you speak? If of a paper without a solid basis, undoubtedly; if of one based on the firm foundation of landed property, never!' The argument was fallacious, as events proved, but it carried the day, and the Assembly immediately ordered the issue of paper assignats to the value of 800 million francs. This first issue was speedily followed by others, and it was not long before paper money came to be regarded as the chief financial resource of the revolutionary government. In 1792 the total circulation had reached two milliard[1] francs. By 1795 it had swelled to 40 milliards. All the consequences foretold by the opponents of paper money came to pass. The assignats depreciated; gold and silver disappeared from circulation; paper prices soared to fantastic heights. The government tried to protect its currency by fixing maximum prices for food-stuffs and by making it illegal to discriminate between gold and assignats. But no legal measures were of the slightest avail in arresting the downward course of the notes. In December, 1790, 100 francs in paper were equal to 92 in gold. In 1793 the rate fell to 51 and in 1795 to 10. The rentier class suffered heavily. The story is told of a prosperous locksmith who retired from business in 1790 with a fortune of 320,000 francs, only to find five years later that it was worth no more than 10,000 francs.[2] At last the monetary situation became so intolerable that the government was driven to remedy it by desperate measures. In 1797 the assignats were declared to be no longer legal money, those in whose possession they happened to be, having to bear the loss of their repudiation by the State. The proceeding was an inequitable one, but it achieved its purpose. At one stroke it got rid of the mass of worthless paper which was choking the channels of trade and introducing doubt and uncertainty into all commercial transactions; gold and silver speedily reappeared in circulation; and France found herself once more in possession of a metallic currency.

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[1] The principle by which one metal drives another out of circulation is called 'Gresham's Law', after Sir Thomas Gresham, an eminent financier of the Elizabethan period, who was supposed to have discovered it. The principle, however, was known before Gresham's time.

In the very year in which France thus trenchantly resolved her monetary difficulties, Britain embarked on a hazardous experiment with a paper currency. The report of a French landing in Wales had caused a panic, followed by a run on the Bank of England, and to relieve the situation, the government authorized the directors to refuse payment of their notes in gold. The privilege was intended only as a temporary one, but it was prolonged by various restricting statutes until 1821, with the result that for twenty-four years England had an inconvertible paper currency. Nothing, however, took place comparable to the extravagant over-issue and depreciation of notes which had occurred in France. The Bank Directors used their powers with great caution. Notes were only issued in response to genuine demands for commercial credit, and the strict observance of this rule helped to keep the circulation within moderate limits. Yet it could not prevent a certain amount of over-issue, followed by a slight depreciation of the notes. The famous Bullion Committee, which reported to Parliament in 1811, pointed out that while the mint price of standard gold was £3 17*s.* 6*d.* per ounce, its price in paper had risen as high as £4 10*s.* The premium on gold was alleged as a decisive proof of the depreciation of the notes, and a similar conclusion was drawn from the state of the foreign exchanges which were uniformly unfavourable to Britain. The Bank Directors, on the other hand, maintained that the premium on gold was due to a scarcity of the metal, not to an over-issue of the notes, an argument which, though probably wrong, is not so absurd as it was held to be at the time by the Bullionists. Parliament, when it came to consider the question, elected to stand by the directors and passed a perfectly futile motion declaring that notes were 'held in public estimation to be equivalent to the legal coin of the realm'. The controversy dragged on for several years longer, until the logic of the Bullion Committee's recommendations became too clear to be contested, and Parliament was forced to abandon its absurd position. In 1819 statutory provision was made for the restoration of cash payments by 1823. The Bank found itself able to anticipate this date, and cash payments were actually resumed in 1821. The gold standard, which had been legalized in 1816, now came for the first time into practical operation.

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[1] A milliard = 1,000 million.

[2] Levasseur, *Histoire des Classes Ouvrières en France*, Vol. I, p. 224.

At this time Britain was the only country with a single gold standard. Throughout the rest of Europe silver currencies or bimetallic systems were the rule. In a country like Germany, with its fifty independent governments, the monetary situation was very involved. Various attempts were made to introduce some degree of uniformity, the most successful of which resulted in the Monetary Convention of 1857. Two monetary standards were recognized, the silver thaler in the North German States, and the Frankfort florin, also of silver, in the south. But other currencies continued to be used, and in particular, the mark-banco, an ideal money of account issued by the Bank of Hamburg.[1] A uniform German currency was not secured until the establishment of the Empire. In France the double standard was instituted by the important monetary law of 1803. Gold and silver francs were coined in the ratio of 1 : 15½. Bimetallism was also adopted by Holland (1816), Belgium (1832), and Switzerland (1850). The convenience of the French monetary system based on the decimal principle led to its adoption by eleven other European countries. In 1865 a number of these states united to form the Latin Union and undertook to regulate their currencies in common. The members of the Union were France, Belgium, Italy and Switzerland, with the addition later of Greece. In this way a uniform currency was established over a great part of Europe.

During the second half of the nineteenth century the bimetallist countries suffered serious inconvenience from the fluctuations in the output of the precious metals. In the 'fifties, the opening up of new mines in California and Australia enormously accelerated the production of gold. The output in 1847 was £6 millions. In 1853 it had risen to £30 millions. The ratio between gold and silver fell from 1 : 16 to 1 : 14, and the premium on silver caused a flight of that metal from the bimetallist countries, causing serious disturbances to their currencies. Then in the 'sixties, the output of silver began to rise. Between 1865 and 1875 the annual production doubled. Within another twenty years it doubled again. The ratio between gold and silver rose from 1 : 14 to 1 : 40. The bimetallist countries now found themselves denuded of their gold and flooded with masses of depreciated silver. To protect themselves they placed restrictions on the minting of silver, and in 1878 the Latin Union took the extreme step of suspending the coinage of silver money altogether. Meanwhile the gold currency countries were suffering in a different way. The decline in the output of gold caused a fall in gold prices. Between 1876 and 1896 the price level in gold-using countries fell steadily, with discouraging effects on trade and commerce. The situation gave a new interest to the question of currency reform, and an influential agitation was started in favour of international bimetallism. It was argued that experience had shown the unwisdom of relying for currency needs on one metal only. If two metals were used, the fluctuations of the one might be trusted to correct the vagaries of the other. Thus if gold became scarce, the deficiency might be made up by an increase in the output of silver, as had actually occurred in the 'seventies and 'eighties. The total supply of the world's currency in that case would remain unaltered and the price level would be unaffected. In official quarters the agitation of the bimetallists made little impression, and public attention was soon diverted from their propaganda by a fresh upheaval in the production of the precious metals. In 1886 the rich gold deposits of the Rand were opened up. Coincident with this development the practice of gold-mining underwent a complete revolution, through the invention of more efficient methods of extracting the metal from the ore. The cyanide process was introduced and the picturesque 'placer miner' with his pick and shovel gave way to the mining capitalist with his up-to-date plant and staff of metallurgists. Under the combined influence of these two factors the gold output rose rapidly. In 1883 it had fallen to £19 millions. In 1890 it was up to £24 millions and by 1915 it had reached £96 millions. Indeed, more gold was produced during the first twenty years of the twentieth century than during the whole of the previous hundred years.[1] The level of gold prices rose steadily from 1896 onwards, and amidst the impetus which the rising prices gave to trade, the agitation in favour of bimetallism died away. Opinion now turned strongly in favour of the single gold standard and the important countries of the world proceeded to establish their currencies on a gold basis. Germany, in 1873, had been one of the earliest states to take this step. Her example was followed by the three Scandinavian countries in 1875 and by Russia in 1897. The bimetallist countries had also in effect adopted the gold standard by suspending the free coinage of silver. When the nineteenth century closed, there was no important European state whose currency was not either based on gold or related to gold.[2]

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[1] The mark-banco was not an actual coin. It was a form of bank money, representing a credit on the Bank of Hamburg. For a description of a similar currency, see Adam Smith's well-known account of the Bank of Amsterdam, *Wealth of Nations*, Bk. IV, Chap. 3, Part 1.

The outbreak of war in 1914 led to the disappearance of the gold standard over the whole of Europe. With one accord, the belligerent governments withdrew their gold coins from circulation and replaced them by inconvertible paper notes. The neutrals were compelled by force of circumstances to follow suit. In every case the steady output of paper money led to a premium on gold and a rise in paper prices. The worst examples of inflation occurred in the years immediately following the war. In Russia the Soviet government poured into circulation milliards of paper roubles with the deliberate purpose of rendering the currency worthless and eliminating it altogether from the social economy, a confused idea existing in the minds of some of the bolshevist leaders that money was an instrument of capitalism. Between 1919 and 1923, the circulation rose from 61 milliard roubles to 8,050,000 milliards. The German government was driven to adopt a somewhat similar policy through the pressing demands of the Allies for a huge war indemnity. Between 1920 and 1923 the circulation increased from 81 milliard marks to 1,293 milliards. Then came the occupation of the Ruhr by the French and the heavy demands on the German Treasury to finance the policy of passive resistance. By December, 1923, the circulation had swelled to 400,000 milliards. In comparison with Russia and Germany, the paper issues of France and Britain seem moderate. The highest circulation of paper francs was 43 milliards, a figure which was reached in 1925, while in Britain the issue of currency notes never exceeded £400 millions.[1]

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[1] The figures are 1801–1900 . . . . . £1,583 millions.
1901–1920 . . . . . £1,655 ,,

[2] The silver-using countries of the world linked their currencies with gold by a system, too complicated for description here, known as the gold exchange standard.

The attempt to find a way of escape from these monetary difficulties produced a multitude of conflicting counsels. The first impulse was to remedy inflation by deflation and this policy was actually tested for a short period in Britain during 1921. But the cure proved worse than the disease. The fall of prices caused by deflation brought with it dull trade and unemployment, which inflicted far more serious evils on society than the economic dislocation caused by inflation. This policy was quickly abandoned. The demand for deflation was then succeeded by a demand for stablization. Mr. J. M. Keynes and the Cambridge school of economists put forward a plea for a 'managed' currency. They argued that the price level could be kept stable if the quantity of money in circulation were made to vary with the demand for it, or in other words with the rise and fall of the trade barometer. These views, however, did not win acceptance with the banking and financial interests, and largely under their influence, the British government determined to solve the problem by a return to the gold standard. This important decision was taken in 1925. The currency notes were made convertible into gold, not however into gold coin but into gold bullion. The object of this provision was to secure that gold should be reserved for legitimate trade needs, such as the payment of foreign debts, and not used for internal retail transactions, which can be effected quite as efficiently and much more cheaply by paper money. This arrangement has achieved a notable economy in the use of gold. In 1928 the currency notes were withdrawn from circulation and their place was taken by Bank of England notes of small denominations.

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[1] It should be observed that inflation in Britain was due much more to the credits granted by the Bank of England to the Government than to the currency notes. The notes, however, were indispensable as providing a cash basis for the expansion of credit.

On the Continent the British solution of the problem was widely adopted. In countries where depreciation had proceeded to great lengths the debased currencies were got rid of by devaluation and new monetary units were introduced, e.g., the renten-mark in Germany, the chervonetz in Russia, the zloty in Poland, the pengö in Hungary, etc. In the majority of cases, devaluation was quickly followed by the restoration of the gold standard in the form adopted by Britain. By 1928 the number of countries which had taken this further step included France, Germany, Italy, Belgium, Norway, Poland, Finland, Latvia, and Lithuania. Between 1923 and 1929 thirty nations stabilized their currencies on a gold basis.

BANKING

Banking is simply a dignified form of money-lending, the banker having the advantage that the money which he lends is not his own but other people's. It has been deposited with him, partly for safe-keeping, partly for the sake of the interest which he pays on it. The banker's business is to lend this money out again at higher rates of interest than he pays for it, pocketing the difference as a reward for his trouble. From this description of his functions, it might appear that the banker was a useless-go-between, a mere social parasite. But this is far from being the case. Banks perform a most important service to society, without which the economic system could not function so efficiently as it does. It is through their agency that capital is transferred from those who cannot or will not employ it in industry to those who can. In this way, the banker increases, not the total amount of capital in existence but the total amount of it available for production. And this is an important service for which he deserves to be paid. Whether the payment which he exacts is too high is, of course, another question. But some payment he must have, otherwise the service will not be performed. The business of banking had its origin in the Middle Ages and by the beginning of the eighteenth century important banking institutions existed in all the great capitals of Europe. The Bank of England, the French Caisse d'Escomptes, the Royal Bank of Berlin, the Bank of Amsterdam, the Courant Bank of Denmark and Norway, the Imperial Banks of St. Petersburg and Moscow, were all examples of great credit institutions standing in close relationship with the State and enjoying some kind of monopoly. The Bank of England, one of the oldest, had been founded in 1694. In 1708, in return for its many services to the government, it obtained a practical monopoly of the right of note-issue in London. No other corporate or joint-stock bank might issue notes in the capital. As at this time, and for long after, the issue of notes was regarded as an indispensable part of banking, the effect of this statute was to relieve the Bank of England from all competition except what might come from small proprietary banks with a partnership of less than six members. Many private banks of this kind sprang up in the capital and the provinces during the eighteenth century, but the scale of their operations was extremely limited. The provincial banks, moreover, obtained an evil reputation for reckless mismanagement. Several financial crises occurred during the eighteenth century in which large numbers of them stopped payment. The brunt of these disasters always fell upon the Bank of England, for almost from the first it had come to occupy the position of the 'bankers' bank'. The smaller banks kept practically no cash reserves against their note issues, but trusted in an emergency to obtain advances from the Bank of England. In this way the English banking system came to rest at a very early date on a single cash reserve, consisting of the gold in the vaults of the Bank of England. The position of the Bank Directors became a very responsible one, but it was long before they realized or acknowledged that they owed a duty to the public. They insisted on regarding themselves as directors of a private banking company with no responsibilities except to their shareholders. Nevertheless, it was in vain that they tried to escape from their obligations. Force of circumstances had placed in their hands the control of the national credit system and on the steps they took at a critical moment might depend the solvency or insolvency of England. One important part of their duties was the guardianship of the gold reserve. During a commercial crisis this became a task of great delicacy. A commercial crisis occurs, said Bagehot, when a number of people begin to fear they will have difficulty in meeting their engagements. This feeling of uncertainty creates a keen demand for legal money, for money, that is, which will be accepted by creditors in payment of debts. During the greater part of the eighteenth and nineteenth centuries English legal currency consisted of gold, and gold could only be obtained in the last resort from the Bank of England. A run on the Bank was therefore an almost invariable feature of every commercial crisis. The position of the directors at such a moment was admittedly a difficult one. If they continued to make advances, they saw their gold reserve dwindle away to vanishing-point. If they curtailed their advances, the panic grew in intensity until it threatened to become unmanageable. Faced with this dilemma, what were they to do? Only one course was open to them—to make advances freely, charging a high rate of discount, and trust that this bold policy might allay the apprehensions of the business community before the reserve was exhausted. A crisis has often its origin in a purely psychological cause. It is frequently the result of blind panic, and any decisive step which inspires confidence may bring it to an end as speedily as it began.[1] The Bank Directors, as has been said, were long in learning their duties and responsibilities, yet despite their lack of experience, they managed successfully to weather the not too serious crises of the eighteenth century, and to escape disaster during the difficult period of the Napoleonic Wars. But in 1825 there occurred a crisis of a severer kind than had ever before been witnessed. The Bank's reserve sank so low and coin became so scarce that according to one high authority, the country was within twenty-four hours of barter. Hundreds of firms, including many London and provincial banks, had to stop payment.[2]

[1] It was Walter Bagehot in his *Lombard Street*, published in 1873, who first clearly laid down the policy which the Bank ought to follow in a time of crisis.

[2] Among the firms which crashed at this time was the printing business of Ballantyne & Co., Edinburgh, of which Sir Walter Scott was a partner. He thus became responsible for liabilities amounting to nearly £130,000.

When the storm was past and the nation had leisure to take stock of the situation, criticism immediately fastened on the Bank of England. Not only were the directors criticized for their handling of the crisis, but they were accused of having provoked it through their excessive issues of paper money. The directors retorted that over-issue was impossible so long as the notes were convertible into gold. Any notes in excess of the requirements of the commercial community would be immediately returned to the Bank for repayment. The principle that convertibility was a sufficient protection against over-issue was referred to in the course of the dispute as the 'banking principle' and its supporters were known as the 'banking school'. The opposite view was upheld by the 'currency school', that bank-notes were primarily a form of currency and that something more than convertibility was required as a guarantee against over-issue. The currency school further alleged that the unlimited power which the Bank possessed of advancing credit in the shape of paper notes was the main cause of commercial crises. They urged on both these grounds that restrictions should be placed on the right of issuing paper money. After a lengthy controversy, and after the country had been convulsed by another commercial crisis in 1837, the currency school succeeded in obtaining legislative sanction for their proposals. The Bank Charter Act of 1844 divided the Bank of England into two departments, a banking department for the transaction of ordinary business, and an issue department for the control and regulation of paper money. The Bank was deprived of its unlimited right of note issue and special precautions were taken to secure the maintenance of an adequate gold reserve. Notes to the value of £14 millions might be issued against first-class securities, but beyond that point all notes must be covered by gold. The Act also provided for the centralization of the note issue. No new banks of issue were to be founded, and the note issues of those already in existence were restricted to a fixed amount. If a bank of issue ceased to exist, two-thirds of its circulation was added to the uncovered issue of the Bank of England. The last private bank of issue [1] disappeared in 1921 and the Bank's fiduciary issue was raised to its highest possible limit, £19,750,000.

Beyond securing, so far as was humanly possible, the convertibility of the notes, the Bank Charter Act failed to fulfil the hopes of its promoters. It did not succeed in restricting the Bank's legal power to advance unlimited credit. Formerly grants of credit had been made by the issue of wads of paper notes, but the growth of the cheque habit and the practice of drawing against credit accounts provided the Bank with a new way of making loans, subject to no legal restrictions. From this time forward the cheque system took on a great extension, and the use of notes came to be confined mainly to small retail payments. The Act also failed to put an end to commercial crises. There was one in 1847, another in 1857, and a third in 1866. On all three occasions the government found it necessary to suspend the Bank Act and allow the Bank to exceed its legal uncovered note issue. The necessity of suspension seemed to many observers a decisive proof of the failure of the Act. It was subjected to severe criticism almost from its inception, and countless proposals were put forward for its revision. But it has survived all attacks and is still the statute which governs the English banking system to-day. It was, however, amended and some of its provisions were made less rigid by the Currency and Banknotes Act of 1928. This was the Act which substituted Bank of England notes of small denominations for the currency notes issued during the war. The limit of the fiduciary issue was fixed at £260 millions. Up to this point the Bank may issue notes against securities, but beyond it every note must be covered by gold. The government, however, is given power to raise the fiduciary limit for periods of six months at a time, parliamentary sanction being sought if the total period of suspension exceeds two years. This provision introduces an element of elasticity into the regulation of the note issue which was conspicuously lacking before.

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[1] Messrs. Fox, Fowler & Co., established in 1789. It was absorbed by Lloyds Bank.

It may be remarked in passing that certain improvements have taken place in banking practice during the last fifty years which have reduced the danger of commercial disturbance. Bankers have now acquired greater experience and capacity both in advancing credits and in handling their reserves, and except for a few days in August, 1914, there has been no run on the Bank of England since 1866. Trade depressions have continued to occur with monotonous regularity, but they have been unaccompanied by monetary crises. To this extent, at least, the economic system has become more stable.

The growth of private joint-stock banks in England was for long hampered by the belief that the Act of 1708 had conferred a complete monopoly on the Bank of England. In 1823, Joplin, a city man, published a pamphlet in which he argued that the Bank's monopoly applied only to the issue of notes and not to general banking business. In 1833 Parliament accepted this interpretation of the law and sanctioned the establishment of joint-stock banks in London, though without rights of issue. Already in 1826 it had permitted the foundation of joint-stock banks of issue at a distance of 65 miles from the metropolis. By 1841 there were 115 joint-stock banks in existence, of which 91 were banks of issue. Their number continued to increase, but after 1870 the tendency towards amalgamation began to exert an influence in the opposite direction. Between 1877 and 1907, over 200 banks were absorbed in larger concerns. This concentration movement was carried to great lengths in the years after the war, and to-day by far the greater part of the banking business of England is done by five large banking concerns, the 'Big Five,' as they are popularly termed, namely, the Midland, the Westminster, Lloyds, Barclays, and the National Provincial. All of them have close relations with the Bank of England, which holds their balances and on which they rely for a supply of cash when required. The Bank still retains its monarchical position in the English money market and its responsibilities are now greater than ever. Fortunately they are more clearly realized by the directors than formerly. The Bank has long ceased to be a private banking company except in name. In fact, it is a semi-public institution, whose directors are guided in their decisions not by considerations of pecuniary profit or dividends but by motives of public policy and care for the general interest.

France had no central bank until the foundation of Law's Banque Générale in 1716, which failed disastrously four years later. It was succeeded in 1776 by the *Caisse d'Escomptes*, which under prudent management, survived until 1793, when it was suppressed by the Revolutionary Government. Three years later some of its directors formed a new bank, the *Caisse des comptes courants*. It was this institution which Napoleon determined to reorganize and transform into a national central bank. The first step was taken in 1800. The name of the *Caisse* was changed to the Bank of France and its constitution was revised. The governing authority was entrusted to a small assembly consisting of the 200 largest shareholders, which appointed an Executive Committee of fifteen regents, as well as three censors or permanent auditors.

In 1806 the Bank was linked more closely with the State. The executive authority was taken out of the hands of the regents and confided to a governor and two deputies appointed by the head of the State. Three years earlier the Bank had obtained the exclusive right of issuing notes in Paris. Under pressure from the Government it opened a few provincial branches, but this development proved premature and the branches were closed down in 1817. The need for credit in the provinces was met by the opening of departmental banks in the chief provincial centres, with rights of issue limited to prescribed areas. The departmental banks were compelled to keep a metallic reserve equal to a third of their circulation. No such restriction was imposed until quite recently on the Bank of France. Later, the success of the provincial banks induced the Bank of France to reconsider its policy with regard to branches. In 1841 a fresh start was made and during the next seven years fifteen branches were opened in different provincial centres.

The Revolution of 1848 exposed the French banking system to severe strain and led to important changes in its organization. The Bank of France made a gallant attempt to meet all its obligations but was compelled to suspend cash payments in March. The provisional government at once came to its assistance, declared the Bank's notes legal tender, and relieved the directors from the liability to cash them in gold or silver. For the first time, a limit was imposed to the total issue, the maximum being fixed at 350 million francs. Similar privileges were accorded to the departmental banks, but whereas their notes depreciated heavily on being declared inconvertible, those of the Bank of France maintained their credit. This encouraged the Bank to press for an amalgamation of the note issues. Within a few months the necessary negotiations were successfully carried through. The departmental banks were absorbed in the Bank of France and a single note issue was established for the whole country. In the following year, when confidence had been restored, cash payments were resumed without difficulty.

Under the Second Empire the Bank made steady progress. In 1857 its privileges were extended for another forty years; it obtained the right to issue notes of 50 francs [1]; and it was authorized to raise its discount rate if necessary beyond the previous maximum of 6 per cent. In return for these privileges, the Bank advanced 100 million francs to the government and undertook to make further advances as required up to a limit of 60 millions.

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[1] In 1848 the lowest denomination of notes had been reduced from 200 francs to 100 francs.

The outbreak of the Franco-German War in 1870 brought about another suspension of cash payments. The government, following the precedents of 1848, declared the Bank's paper legal tender, and fixed the maximum issue at 1,800 million francs. The denomination of the notes was reduced, first to 25 and then to 20 francs. As the war progressed, the Bank was obliged to make considerable advances to the government, which it could only do by increasing its note issue. It was therefore necessary to raise the legal maximum by successive stages until, in 1872, it was fixed at 3,200 million francs. Yet despite this large addition to the currency, the paper franc depreciated very slightly. The highest point reached by the premium on gold was 2·5 per cent., which compares very favourably with the 13 per cent. recorded in 1848. Cash payments were not resumed this time until 1878. The notes were allowed to retain their character of legal tender, and the maximum circulation was raised to 3,500 million francs.

During the period 1914–18 the experience of 1870 was repeated on a larger scale. Cash payments were again suspended; the government called on the Bank for heavy advances; and the increase in the note issue kept pace with the growth in the government's liabilities. The maximum circulation was fixed in 1920 at 41 milliard francs, but the government's inability to balance its budget compelled it to ask the Bank for further help, with the result that by 1925 the circulation was 2 milliards in excess of the legal maximum, a fact which was carefully concealed by false balance sheets. In 1926 the situation was partially regularized by raising the maximum issue to 58½ milliards, but the affairs of the Bank were not put on a permanent footing until 1928. In that year the gold standard was introduced into France, and the Bank's notes were made convertible into gold currency or bullion. For the first time it was made obligatory on the Bank to keep a gold reserve, fixed at 35 per cent. of its note issue and its credit current accounts, but the maximum limit to the note issue was abolished. The revaluation of the Bank's stock of gold, silver and foreign exchange at the new currency rates produced a surplus which the government claimed in virtue of a convention of September, 1914. This enabled it to wipe out a debt of 14 milliard francs, which it owed to the Bank, and to hand over a surplus of 1 milliard to the Treasury. From the point of view of the State, the restoration of the gold standard was an exceedingly profitable transaction.

The development of joint-stock banks in France dates from the Second Empire. One of the earliest banks of this kind was the notorious Crédit Mobilier, founded by the brothers Peréire in 1852. It struck out a new line in banking. Instead of confining itself to the prosaic business of bill-discounting, it floated companies, financed industrial undertakings, and speculated in stocks and shares. At first it was dazzlingly successful, and in 1855 it declared a dividend of 47 per cent. But the business was risky and the capital of the undertaking soon became tied up in various undertakings. Disaster overtook it in 1867, and the Company, unable to realize its assets, failed ignominiously. The Bank of France wound up its affairs, after exacting the resignation of the brothers Peréire. In spite of this inauspicious beginning, banks of this kind, *banques d'affaires*, as they are called, have always been popular on the Continent. The Crédit Mobilier was succeeded in 1878 by the Union Générale, which came to grief in 1881. Other banks of the same type which are still in existence are the Union Parisienne and the Banque de Paris et des Pays-Bas.

Amongst the joint-stock banks which confine themselves to ordinary banking operations, a remarkable concentration movement has taken place within the last thirty years, so that to-day six great companies have a practical monopoly of banking business in France. Their names are the Crédit Lyonnais, the Crédit Industriel, the Crédit Commercial, the Société Générale, the Comptoir d'Escompte, and the Banque Nationale de Crédit. Some of these banks in their early days dabbled in company-promoting after the fashion of the Crédit Mobilier, but the failure of the Union Générale acted as a warning, and now they keep well within the limits of ordinary banking business. A French credit institution of a particular kind which deserves to be mentioned is the Crédit Foncier. In 1854 it received a monopoly of the business of lending on mortgage. Although the monopoly was withdrawn in 1876, it continues to do practically all the mortgage business in France. Its purpose originally was to provide rural landowners with long-period credit, but the bulk of its advances are now made to municipalities on the security of urban property. Few municipalities in France issue public loans as in England. They prefer to borrow from the Crédit

Foncier. Two distinctive features of French banking call for mention. The cheque habit has never taken deep root in France and French banks continue to make a large proportion of their advances by means of paper notes. This involves the necessity of an extensive note issue by the Bank of France and the maintenance of an adequate metallic reserve, though on this latter point French law laid down no regulations until 1928. Another distinctive feature of French banking is the important part that bill-discounting plays in it. The number and the small value of the bills handled by the French banks are equally remarkable. By a law of 1893 the Bank of France was compelled to discount bills of 5 francs (roughly 4 shillings). There is a certain want of proportion here. A central bank of issue should not be compelled to devote its attention to such trifles. It is as irrational as using a steam-hammer to crack an egg-shell.

Germany, when the nineteenth century opened, had only one bank of issue, the Royal Bank of Berlin. It was a characteristically Prussian institution, managed entirely by government officials. In 1806 the note issue was suppressed as an unnecessary and even dangerous form of currency. There was, it is true, little demand for credit at this time in Prussia. In the 'thirties, when trade grew brisker, a number of banks of issue made their appearance in different parts of Germany, such as the Bavarian Mortgage Bank and the Bank of Leipzig. In 1846 the Royal Bank of Berlin was replaced by a new institution, the Bank of Prussia, managed much in the same fashion as its predecessor. In form it was a joint-stock company, but the shareholders were allowed no voice in its government except through the recommendations of an advisory committee. 'A blood horse mounted by a skilful rider' is how one German historian[1] approvingly describes this combination of private enterprise and bureaucratic control.

During the 'fifties and 'sixties, banking institutions continued to be established, and when the Empire was founded, there were altogether thirty-three banks of issue in Germany. The confusion of the currency was reflected in the variety of the note issue, which included about 140 different types. The establishment of a single imperial currency in 1873 naturally suggested the introduction of uniformity into the note issue as well, and after the Bank of Prussia had been transformed in 1875 into the Reichsbank, steps were taken to concentrate the note issues of the other banks in this central institution. The process was a slow one, but by 1910, twenty-eight of the remaining thirty-two banks of issue had surrendered their rights of issue. The Bavarian, the Saxon, the Würtemberg and the Baden Banks refused to abandon their privileges, but their circulations were insignificant in comparison with that of the Reichsbank. A maximum uncovered circulation was fixed by law both for the Imperial and the other note-issuing banks, but the legal limit might be exceeded on payment of a tax of 5 per cent. The system was therefore more elastic than that instituted by the English Bank Act of 1844.

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[1] Sombart.

Like the Bank of France, the Reichsbank was founded not merely to control the national credit system but to provide credit facilities for all classes. With this object, it opened numerous branches throughout Germany and discounted bills as low as 10 marks. But latterly it has tended to approximate more and more to the position of the Bank of England, acting as the 'bankers' bank' and exercising general control over the money market. Like the Bank of Prussia which it replaced, its governing body has a strong bureaucratic element. Under the Dawes Scheme of 1924, important changes were introduced into its constitution, including the creation of a new general council, of which half the members were representatives of foreign states.

Private banking in Germany has followed very much the same course as in France and England. The partnership banks have been turned into joint-stock companies, and the joint-stock banks have amalgamated to form larger concerns. After the war the German banking world came to be dominated by six great banking combines, the Deutsche, the Diskontogesellschaft, the Darmstädter, the Dresdener, the Berliner Handelgesellschaft, and the Schaffhausensche Bankverein.[1] Some of these were originally provincial banks, but since the foundation of the Empire, Berlin has become unmistakably the banking centre of Germany, and the great provincial banks have transferred their headquarters to the capital.

One notable feature of the German banks, which distinguishes them from those of France or Britain, is their close connection with industrial undertakings. They are practically all *banques d'affaires*, supplying industry not with short-time credit but with permanent capital. As such, they have played a conspicuous part in promoting the general industrial development of Germany. Syndicates of banks have built railways, constructed canals and launched industrial enterprises. Bankers sit on the Boards of all important industrial companies, and industry is subordinated to finance in a way that is almost unknown in any other country. One beneficial consequence is seen in the tendency towards rationalization of industry which has proceeded further in Germany than elsewhere. The influence of the bankers has been a powerful factor in promoting the cartell movement. Having financial interests in a multiplicity of undertakings, they do not wish to see their protégés slaughter each other in an internecine war of competition, and they exert themselves to introduce peace amongst the combatants. This can obviously best be done by the formation of alliances and agreements for the fixing of prices and the division of markets amongst the chief competitors.

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[1] In 1929 the Deutsche and the Diskontogesellschaft amalgamated.

'In countries where there is no central bank of issue, one should be established.' This resolution, passed in 1920 by the International Financial Conference at Brussels, has been extensively acted upon. The old central banks have been overhauled and reorganized, and new ones have been created in states where they did not previously exist. The need for some central institution to control the general credit operations of a country is now admitted without question. The American commercial crisis of 1907 revealed in unmistakable fashion the weaknesses of a system under which no institution has sufficient authority in an emergency to take the situation in hand and devise remedial measures. Thus the banking edifice of every important European country is crowned by a central bank with special powers for regulating and controlling the supply of credit and the movement of prices. Sometimes, as in Russia, this is definitely a State bank, but more commonly, it is a private institution under government control.[1] Beneath the Central Bank stand a small number of powerful joint-stock banks, which monopolize all but a small proportion of the banking business of the country, and beyond these again is a larger but constantly diminishing number of small private or provincial banks, leading a somewhat precarious existence and ever on the verge of being crushed out or absorbed by their more powerful competitors. This is the form which the national banking systems of Europe have almost uniformly assumed in the years since the war.

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[1] For the constitutions of the European Central Banks, *v.* Kisch and Elkin, *Central Banks*, 1928.

Investment

As the main function of most banks is to supply short-period credit only, the permanent capital required by industrial enterprise must be obtained through other channels. Until about a century ago, most business men had to finance their businesses out of their own private resources. It was useless to apply for help to the outside public. At that time the wealthy rentier either invested his capital in land or else locked it up in his strong-box. The father of the poet, Pope, when he sold his prosperous linen-draper's business, spent part of the proceeds in buying a small property in the country and placed the remainder, about £20,000, in a chest from which he took out periodically such sums as he required for his current expenses. The habit of hoarding was only gradually overcome by the growth of commercial confidence and the appearance of opportunities for safe investment. One of the earliest outlets for idle capital was furnished by the public debts which were created in the seventeenth and eighteenth centuries. The English National Debt, which dates from 1694, had swelled by 1815 to £876 millions. On the eve of the Revolution, the French public debt was estimated at about 5 milliard francs. It was cut down to about a third of that amount by the rough and ready methods of the Revolutionary finance ministers, but in 1848 it stood once more at the 5-milliard level. In the early nineteenth century the floating of loans by the smaller states of Europe and by the new republics of South America opened up fresh channels of profitable investment. But the investment habit received by far its greatest stimulus from the development of joint-stock enterprise, and the practice of selling shares, by which the ownership of a business was split up into fragments and divided up among a large number of people. The origin of joint-stock companies goes back to the later Middle Ages, but prior to the nineteenth century, they were few in number and were regarded with distrust by the general public. In the eighteenth century the feeling against them grew very strong, and found expression in the writings of the economists. Adam Smith gave it as his opinion that, except in routine businesses, no joint-stock company could succeed without a monopoly. To this charge of inefficiency was added one of corruption, which had ample foundation in the scandals attending such speculative orgies as the South Sea Bubble or Law's Mississippi Scheme. Ths English legislature showed its distrust of joint-stock enterprise by passing the Bubble Act in 1720 which forbade the formation of companies with transferable shares without an express charter from the Crown or Parliament. To obtain a charter was a troublesome and expensive proceeding, and this provision acted as a very effective check on the formation of joint-stock companies. It was relaxed in 1825, but other troublesome regulations were maintained. In particular, Parliament insisted that every member of a company should be personally liable for the whole of its debts to the full extent of his means. The insistence on the principle of unlimited liability gave a company no advantage over a simple partnership and took away all inducement to experiment with this form of commercial organization. It was not until 1855 that Parliament consented to legalize the principle of limited liability, by which a shareholder is responsible for the company's debts only to the extent of his share in its capital. This concession removed the most formidable obstacle to the progress of joint-stock enterprise. The number of companies grew steadily. In 1883 there were about 10,000 with a capital of half a million pounds. In 1921 there were 80,000 with a capital of £4,000 millions. It is, however, a tribute to Adam Smith's prescience that even to-day it is in the routine trades that joint-stock companies are most numerous.

In France, the joint-stock company under the name of the *société anonyme* was recognized by the French Commercial Code of 1807, and the directors were given power to include the principle of limited liability in the company's constitution if they chose. But the formation of a *société anonyme* was hedged about with many formalities, and French business men preferred a simpler form of association which was really an extension of the sleeping partnership. In the *société en commandite par actions*, as it was called, there was a chief partner, the *gerant*, who accepted unlimited liability for the company's, debts and a number of sleeping partners subject to limited liability only. The sleeping partners held shares which were transferable. This form of association was much more popular than the *société anonyme*, until in 1867 the government decided to relax some of the formalities in regard to the latter, especially the insistence on an official authorization in every individual case. *Sociétés anonymes* could now be formed by complying with the terms of a general law, and from this time onward they became the prevailing form of commercial organization in France. In Germany, the need for individual authorization of companies was done away with in 1872, and as limited liability had always been recognized in that country as an essential feature of joint-stock enterprise, no further change was required to bring German company law into line with that of other states.

The multiplication of outlets for capital seeking investment during the nineteenth century gave an ever-increasing importance to the capital markets of the world, the stock exchanges or bourses. Dealing in stocks and shares became common about the beginning of the eighteenth century, the principal effects traded in being government bonds and the shares of a few joint-stock companies. The dealers had no regular building to meet in and most of the transactions were carried through in the street. Usually one particular quarter became the haunt of the stockbrokers. In London it was Change Alley, in Paris the Rue Quincampoix. Later, as the business extended, covered-in meeting-places were built. In 1773 the London brokers gave the name of 'Stock Exchange' to Jonathan's coffee-house in Sweetings Alley, and made a charge of sixpence for admission. In 1801 they erected a special building in Capel Court and limited admission to subscribing members. At that time the membership was about 500. A century later it was nearly 5,000. In Paris, the Bourse was organized on very different lines. By two laws of 1807 and 1816, membership was limited to a prescribed number of persons (first 60 and later 70), who alone had the right to deal in certain important stocks. These official *agents de change* each deposited a bond for a large amount with the government as a guarantee of their honesty, but they had the right to sell their offices and transfer their bonds to successors nominated by them. The official brokers make up what is called the *parquet*. Outside it, there is the *coulisse*, or kerb-market, where anyone may transact business on payment of licence duty. The *coulissier* acts in effect as a middleman between the official brokers and the public. His functions are very much like that of the English broker who accepts orders from a client and executes them through a jobber inside the house. On the Berlin Stock Exchange, persons who are not members may obtain cards allowing them to enter the house and transact business. Usually the number of outsiders operating in this way is about double the regular membership.

The business done on the European stock exchanges at the beginning of the nineteenth century was very largely the selling of government bonds. Even at this early date, London had succeeded Amsterdam as the world's money market. London brokers like Rothschild, Baring Bros., T. Wilson & Co., were prominent in floating loans for the young American republics and the smaller powers of the Continent. Between 1818 and 1832 twenty-six foreign government loans were issued in London. Then in the 'thirties and 'forties came the railway boom, which led to a great outburst of speculative activity on all the stock exchanges of the world, and finally the remarkable extension of joint-stock enterprise in the later nineteenth century steadily added to the number of effects with which stockbrokers had to deal. Until 1867 the 'Daily Official List' of the London Stock Exchange consisted of a single sheet. By 1902 it had grown to sixteen sheets and the number of items had swelled to 4,000. The majority of the stocks dealt with on the London Exchange are international securities, that is, stocks which are bought and sold on all the great exchanges of the world. London naturally controls the greater part of this international business, but Paris has an important share in it. Both London and Paris are creditor markets. They supply other countries with capital. The Bourses of Vienna, Madrid, Rome and the less important European capitals are debtor markets. They absorb capital from outside. Before 1914 the Berlin Bourse might be described as self-sufficing. The greater part of German capital was invested in purely German enterprises and little foreign capital was imported from abroad. But since the war, Germany has become a debtor market.

The war has also transformed the financial relations that previously existed between the continents of Europe and America. Europe is now the debtor not the creditor continent. This has necessarily had important consequences. At one time it even seemed likely that the world's financial capital would be transformed from London to New York, and though this did not take place, the prestige and importance of Wall Street among the bourses and stock exchanges of the world have grown enormously. The United States controls the bulk of the world's stock of gold. After the war, impoverished Europe could not pay the whole of her debts in commodities and the adverse balance had to be met in bullion. America became the controller of the world's gold supplies and was able to exercise a decisive influence on the level of international prices and the rediscount rate of European financial centres. This advantageous position she still retains, and thus the economic prosperity of the rest of the world has come largely to depend on what happens in New York. Moreover, the obligation to redeem the war debts and the capital advanced by American financiers for the reconstruction of war-devastated Europe means that for another couple of generations a large proportion of Europe's capital and labour will be mortgaged for the benefit of the United States. It follows, then, that the attitude adopted by America to her debtors will be one of the cardinal factors determining the course of European economic history during the next fifty years.

CHAPTER VII

SOCIALISM AND THE SOCIAL PROBLEM

INEQUALITY in the distribution of wealth has been a feature of human society from the earliest times, but at some periods the inequality is more marked than at others. In general, the more primitive the arts of production and the simpler the economic organization of society, the less pronounced is the disparity between individuals in the enjoyment of the means of comfort. In the very first stage of economic activity, when man gained a precarious livelihood by hunting and fishing, society was organized on an equalitarian basis. There were no social classes, and (from the economic standpoint) even the differentiation between the sexes was slight. As occurs among the lower animals, the female hunted alongside the male in the hunting pack. But since then, every improvement in the means of satisfying human wants has tended to accentuate individual and class differences. Increasing differentiation and specialization have broken up the uniformity of primitive society, and men have become ranked in social classes, corresponding to varieties in economic function or to differences in the public services which they render to the community. Every upward movement of economic progress has been accompanied by greater social inequality, and the human race has paid for its increase in material comfort by a certain weakening of the social sympathies. The Industrial Revolution is no exception to this general law. It was, as we have indicated, a movement with both good and evil sides. It made a few rich, but it made many poor. It increased national wealth, but it diminished national well-being. It promoted material prosperity, but it arrested social progress. The Industrial Revolution threw into bolder relief the problem of poverty by creating almost for the first time a class of landless and propertyless proletarians. The industrial worker of the nineteenth century was a wage-earner, completely divorced from the means of production and relying for a livelihood entirely on the labour of his hands. He was not, it is true, an entirely new figure. As far back as the sixteenth century examples of the type were to be found, but at these earlier periods the proletarians were too few in number to impress a definite character on the social organization. It was only in the nineteenth century that they became a powerful social class, large enough to embrace nearly all the working population. The creation of a rural and industrial proletariat is the most important social consequence of the Industrial Revolution, and, it may be added, the most unfortunate.

It was only natural that the striking social contrasts of this period should give a powerful impulse to economic speculation. The problems connected with the production and distribution of wealth assumed a new interest, and out of the stir of ideas both economic science and socialism were born. In the early stages of their development these two great bodies of doctrine were opposed to each other at almost every point. The economists were the champions of the existing system, the socialists were its critics. The economists defended economic liberty and freedom of enterprise; the socialists preached State intervention and collectivism. The influence of these two divergent streams of thought is visible throughout the whole social history of the nineteenth century.[1]

THE ECONOMISTS

'In every department of human affairs,' said J. S. Mill, 'Practice long precedes science.'[2] Men engaged in the production of wealth long before they proceeded to reflect upon what they were doing, still less to build up their reflections into an ordered scheme of knowledge. This is the chief reason why economic science is less than two hundred years old.

The distinction of being the earliest scientific economist belongs to Adam Smith (1723–90). He it was who first clearly separated, in the study of economic phenomena, the theoretical from the practical point of view, who made it his aim to discover truth, not to frame policies, and who shed light into the darkest corners of the economic labyrinth by the use of a few simple conceptions. This last achievement alone would entitle *The Wealth of Nations* [1] to rank as a work of genius. The great hive of human industry seemed to be filled with aimless bustle and confusion. Adam Smith showed that it was organized on a rational plan. The application of two simple ideas, division of labour and exchange, gave meaning and intelligibility to what seemed purposeless activity. Each producer was shown to be engaged in the specialized production of some one article or part of an article which he constantly exchanged for other commodities that he required. In the light of these two conceptions, the different parts of the economic system fitted neatly together like a jig-saw puzzle. The necessary co-ordinating force was supplied by the action of enlightened self-interest. Under its influence, the supply was produced to satisfy the demand, and the interests of producers and consumers were reconciled by the fixing of a price which did justice to both. Competitive prices were just prices, and thus the interest of the individual was shown to be identical with the interest of society, a coincidence which Adam Smith evidently regarded as providential.[2] From this there follows one of his sovereign principles which was destined to have a great and glorious future, his doctrine of economic liberty. If the operation of self-interest is invariably beneficent, then all restraints on its exercise ought to be taken away. In the economic as in the physical world, there is a natural order which cannot be violated with impunity, and in the one case, as in the other, Nature must be overcome by obeying her. Experience had shown that private citizens were more competent to do this than governments, and therefore State control of economic activities was either superfluous or else positively harmful. This is the foundation of what Huxley called 'administrative nihilism', the theory that the less a government does, the better. It speedily passed into a maxim of current political philosophy. 'Let government,' said Burke, 'protect and encourage industry, secure property, repress violence and discountenance fraud, it is all they have to do. In other respects, the less they meddle in these affairs, the better.' [3] And in the next generation, Macaulay, with his usual cocksureness, stated the theory with greater incisiveness. ‘Our rulers,’ he wrote in his Essay on Southey’s Colloquies (1830), ‘will best promote the improvement of the nation by strictly confining themselves to their own legitimate duties, by leaving capital to find its most lucrative course, commodities their fair price, industry and intelligence their natural reward, idleness and folly their natural punishment, by maintaining peace, by defending property, by diminishing the price of law and by observing strict economy in every department of the State. Let the government do this: the people will assuredly do the rest.’ Here is the triumphant and unqualified assertion of the economic liberalism which was to govern European opinion for the next fifty years.

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[1] It is perhaps hardly necessary to mention that economic science has long ceased to be wedded to any particular social doctrine. It furnishes a common ground of theory on which members of the most divergent schools can meet. It is in the realm of practice, or in the application of principles, that differences appear.

[2] *Principles of Political Economy*, p. 1.

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[1] Published in 1776.

[2] As shown by his reference to 'the invisible hand'. In pursuing his own interest, the individual 'is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention'.—*Wealth of Nations*, Vol. II, p. 33.

[3] *Letters on a Regicide Peace*, No. III (1797).

Adam Smith had taught his contemporaries that all was for the best in the world of economic practice, but this comfortable belief was somewhat shaken by the work of his successors. Their more searching surveys revealed flaws in the economic structure, which he had either overlooked, or had not sufficiently emphasized. The writings of Malthus and Ricardo have a pessimistic tinge which is absent from the *Wealth of Nations*. Ricardo (1772–1823), a London stockbroker of Jewish origin, published his *Principles of Political Economy and Taxation* in 1817. In this work he made a more careful study of the *distribution* of wealth than Adam Smith had attempted. The national income, he showed, falls naturally into three broad divisions, Rent, Wages and Profits, corresponding to the three great agents of production, Land, Labour and Capital. Rent owes its origin, not to the bounty of Nature, as Adam Smith had suggested, but to its niggardliness, to the fact that land is scarce and its output limited. As population increases, inferior soils require to be taken into cultivation, and the increased cost of production must be met by a general rise in the price of corn. This allows the better land (where cost of production remains the same) to yield a surplus. Competition among cultivators for farms enables the landowner to transfer this surplus to himself under the name of rent. The farther the margin extends, the larger the area of the land yielding rent and the higher the surplus obtained on the better lands. With the progress of society, therefore, rents tend to increase. Wages, on the other hand, owing to the increasing numbers of the labourers, can never rise much above the rate necessary to maintain the worker at the minimum standard of comfort. The monetary value of wages may increase, it is true, owing to a rise in the price of food, but their purchasing power will remain the same. Lastly, profits will constantly tend to diminish. Owing to the increasing dearness of food, which is the result of the growth of population, the capitalist must pay away a larger proportion of his surplus in the form of wages, and his net profit is correspondingly curtailed. According to Ricardo the outlook for the future is not reassuring. In a progressive state of society, only one class appears likely to improve its position, namely the landlords. The idea derived from the *Wealth of Nations* that the operation of self-interest promotes social solidarity is shown to be without foundation. Society stands revealed, not as a community with common interests, but as an uneasy combination of warring elements, in which the interest of the part is often diametrically opposed to the interest of the whole.

In the writings of Malthus (1766–1836), economic pessimism assumes a deeper tinge. Malthus, a Church of England clergyman, published his famous *Essay on Population* in 1798, in which he laid down the general proposition that population constantly tends to outstrip the means of subsistence. It is only prevented from doing so by the action of three checks, misery, vice and moral restraint.[1] The addition of the third check, which was only made in the second edition of the book in 1803, relieves to some extent the gloominess of the argument. If the human race can voluntarily restrict its numbers, then it is not inevitably exposed to the plagues and famines with which Nature will otherwise correct the tendency to overpopulation, and social happiness and perfection are not altogether beyond the reach of mankind. Yet in his own mind Malthus was convinced that moral restraint was far too feeble a force to keep population within due limits. The assistance of the negative checks, vice and misery, would always be required. Man cannot then escape his unhappy fate. The slave of an imperious and uncontrollable appetite, he is doomed without remedy to misery and wretchedness, and the vision of a perfect social state is a dream incapable of realization. It required a robust faith in a social reformer to withstand the chilling influence of this depressing theory.

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[1] By moral restraint, Malthus meant, not birth control, but the postponement of marriage, combined with strict chastity, until the male partner is in an economic position to rear a family. Malthus himself did not marry till he was 39. He had four children, thus confirming in his own case, his proposition that population doubles itself in a generation.

Malthusianism had a withering effect on social effort and tended to induce a despairing acquiescence in things as they were. Few intellectual doctrines have done more to prolong the life of social abuses or to cool the ardour for social improvement.

John Stuart Mill (1806–73) in his *Principles of Political Economy*, published in 1848, gave the classical economy its most attractive literary expression. The book immediately became the authoritative English textbook on the subject, a position which it retained for two generations. Even more than his predecessors, Mill was conscious of the imperfections of the existing system. In a significant passage, he writes: 'If therefore the choice were to be made between communism with all its chances and the present state of society with all its sufferings and injustices . . . all the difficulties great or small of communism would be as dust in the balance '.[1] Mill, however, did not believe that society was tied down to these two alternatives. A way of escape might be found in other directions, by the promotion of co-operative production, the taxation of economic rent and the removal of gross inequalities in the distribution of wealth through the limitation of bequest. In later life Mill moved farther towards the socialist position, but even in 1848 he had travelled far from the standpoint of his early teachers.

On the Continent the intellectual successors of Adam Smith adhered more faithfully to his optimistic philosophy than their English counterparts. J. B. Say (1767–1832) published in 1803 a popularization of the teaching of the *Wealth of Nations* under the title of *Traité d'Economie Politique*. Its clearness and simplicity rapidly won for it the position of the most popular European textbook on economics.

Prince Smith (1809–74), a naturalized Englishman, rendered a similar service to the principles of Adam Smith in Germany. His attitude towards social problems was typical of all the continental supporters of *Smithianismus*. 'It is absurd,' he wrote, 'to suppose that there is a social question and still more absurd to suppose that if there were it could be solved by other than natural means.' This social optimism or indifferentism was carried to its highest point by the French economists and received its clearest exposition at the hands of Bastiat in his *Economic Harmonies*, published in 1850. The title of the book sufficiently explains its purpose. Bastiat examines the existing system and pronounces it faultless. He is ready to defend it not only against avowed enemies like the socialists but against disloyal friends like the English economists. The doctrines of rent, wages and population, on which Malthus and Ricardo based their sombre predictions, are refuted in detail, and a new theory of value is advanced, which establishes the economic harmony on immovable foundations. The measure of value is not *labour*, as Ricardo had stated, but *labour saved*; not the labour which the producer spends on the production of an article, but the labour which his effort spares the purchaser. The application of this notion at once disposes of all apparent inequities in price, and establishes the reign of justice and fairness throughout every department of the economic system. To take an illustration, the chance finder of a pearl obtains a greater reward for his ' effort ' than the laborious producer of a chair or table, but this is perfectly equitable, for the labour saved to the purchaser is immeasurably greater in the first case than in the second. One could perhaps make a table in a few hours, it might require months or years to find a pearl. In his new conception of value, Bastiat had found a talisman which would resolve the most stubborn economic disharmonies into examples of fair dealing and mutual advantage, and he was able to sum up his general conclusion in words that recall a famous sentence of Adam Smith's, ' Let every man pursue his own interest and it will come to pass that each without wishing it will serve the interests of all '.

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[1] *Principles*, Book II, Chap. I, p. 3.

The French Socialists

It was in the country in which the principles of the classical economy received their most logical and unqualified expression that the opposing doctrine of socialism had its birth.[1] During the first half of the nineteenth century there arose a group of French thinkers, Saint-Simon, Fourier, Proudhon and Louis Blanc—to name only the most important—who stated in clear and unmistakable terms the socialist critique of private property, and sowed most of the germinal ideas which were to bear fruit in the systems of a later date.

Saint-Simon (1760–1825) was a member of an old aristocratic family, well known in French history, who had spent an adventurous life as soldier, traveller, commercial speculator and author. His claim to be regarded as the first socialist is somewhat doubtful, inasmuch as he never definitely challenged the institution of private property. But in the hands of his disciples his doctrines were matured and expanded into a collectivist system. Saint-Simon himself is perhaps best described as a champion of industrialism. He recognized the significance of the economic revolution which was taking place during his lifetime, and realized that it involved a political and social revolution as well. The centre of economic gravity had shifted. Political authority must be transferred from the superannuated classes, the landowners, the soldiers and the lawyers, to the representatives of the new economic order, the industrialists. By industrialists, Saint-Simon meant broadly, the producing as opposed to the idle classes, and amongst the producers, he reckoned the capitalists, not merely in virtue of their position as directors of industry, but also as owners of capital. By allowing their capital to be used by other producers, they assisted in production and were entitled to a reward. Thus Saint-Simon justified interest, but somewhat inconsistently condemned rent, which he regarded as a tax levied on the producing classes, though it is difficult to see much distinction from this point of view between the two kinds of income. The important point, however, is that Saint-Simon did not condemn outright the institution of private property. He recognized the private ownership of capital. Once political power had been transferred to the industrialists, society would be organized as a vast association of producers and the government would be entrusted with the duty of regulating and co-ordinating the production of wealth. It is this part of his proposals which justify us in regarding Saint-Simon as one of the pioneers of rationalization in industry.

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[1] The word ' socialism ' seems first to have been used in 1832 in a review article written by a Parisian journalist, Pierre Leroux.

His followers, a distinguished band, including such well-known names as Comte, Lesseps and Sainte-Beuve, went further than their chief, and explicitly condemned the institution of private property. They did so on two grounds. First, that of justice. Private property allows non-producers to take toll of the wealth created by the labouring population. It therefore leads to *exploitation*, a conception which we owe to the Saint-Simonists, and which was to play a decisive part in the later development of socialist thought. Secondly, private property is to be condemned on grounds of expediency. It acts as a handicap to efficient production by allowing capital to come into the possession of those least qualified to use it. The custom chiefly responsible for this mal-distribution of the means of production is the right of bequest, and the Saint-Simonists therefore proposed to abolish it altogether, making the State the universal legatee. This arrangement would, within the course of a generation or two, transfer all capital to the government, which would thereupon hand it over to the producers best able to use it. In this way the production of society would be raised to its highest capacity. The Saint-Simonists, it should be observed, did not aim at an equalitarian society. 'To each according to his capacity' was their motto, a principle which allowed the more talented producers to obtain a larger share of the national income. But the system proposed was a collectivist one, since the means of production were to be publicly controlled, and the process of production was to be directed by the government.

The Saint-Simonist school had a great vogue during the six or seven years after the death of its founder. Public meetings were organized in Paris, and propaganda was actively carried on through a number of newspapers like the *Producteur* and the *Globe.* At one time the school was said to number 40,000 adherents. In 1831 the leaders established a semi-monastic community at Menilmontant, near Paris, in an endeavour to realize the mystical and religious side of Saint-Simon's teaching, which figured prominently in his doctrine, but this experiment provoked a police prosecution, and had the effect of breaking up the school. Many of the members followed Comte and became Positivists, others attached themselves to various schools of humanitarian socialism, and a number adopted commercial or industrial careers, in which they distinguished themselves by their energy and ability. Lesseps constructed the Suez Canal; Enfantin became a railway director; the brothers Peréire founded an important credit institution; Chevalier became a senator under the Second Empire, and played an important part in negotiating the Cobden Commercial Treaty with England. The unusual combination of mystical views and practical ability was a characteristic of most of the leading Saint-Simonists.

Fourier (1772–1837) was a typical member of the bourgeoisie, the class from which nearly all the intellectual leaders of socialism have sprung. He was a commercial traveller, a confirmed bachelor, simple and irreproachable in his private life, but with a pronounced vein of eccentricity which showed itself strongly in his writings and often serves to conceal the profundity and originality of his ideas. His own account of the manner in which his attention was first drawn to social questions reveals the character of the man. The impulse was supplied, he tells us, by an apple.

> 'This apple, worthy of fame, was bought for 14 sous by a traveller who dined with me at the Restaurant Février in Paris. I had just come from a district where similar or even superior apples were sold at more than a hundred for 14 sous. I was so struck with this difference in price between districts with the same climate that I began to suspect a fundamental disorder in the social mechanism. . . . I have remarked since that there are four famous apples celebrated in history—two by the disasters which they caused, that of Adam and that of Paris; and two by the services which they rendered to science, that of Newton and mine. Does not this quartet of famous apples deserve a page in history?'

In contrast to Saint-Simon, Fourier did not aim at a re-organization of society from the centre, but at the creation of small socialist communities, which should act as a leaven and produce a social transformation by slow degrees. In other words, he was a believer in voluntary co-operation, not in compulsory nationalization. The Fourierist community was known as the *phalanstère* or the *phalange*. It was to be organized as a joint-stock company, the members of the *phalanstère* holding shares in it, though not necessarily equal shares. Fourier was no more of an equalitarian than Saint-Simon. Like him, too, he was willing to recognize a payment for the use of capital, and it was part of his plan that outsiders should supply some or all of the funds required to float the first *phalanstère*. It is said that for twelve years he waited in a certain room for one hour every day in expectation of the philanthropic millionaire who was to supply him with the means for his social experiment. The *phalanstère* was to include roughly 1,000 acres of land which was to be cultivated by the joint labour of the community, the members living in communal fashion in a huge co-operative hotel. The profits of the enterprise were to be divided in the following ratio—five-twelfths to labour, four-twelfths (an unusually large proportion) to capital, and three-twelfths to talent, by which Fourier seems to have meant chiefly the labour of direction. It was intended that the *phalanstères* should be largely self-sufficing, but separate *phalanstères* might exchange surplus products with each other and might even enter into federations. Fourier indeed looked forward to a time when national boundaries would disappear and Europe would consist of one huge federation of *phalanstères* with its capital at Constantinople. His solution of the social problem, then, was not the abolition of private property but its extension so that it might include the wage-earners. The promotion of the worker to the rank of a property owner (by giving him a share in the *phalanstère*) would remove at one stroke the ancient antagonisms of master and servant, debtor and creditor, producer and consumer, and establish automatically the reign of social peace.[1]

None of the attempts made to realize the Fourierist community in practice had any success, though there is a *phalanstère* still in existence in an attentuated form at Condé-sur-Vesgres, near Rambouillet, and in the famous Familistère of Guise some of Fourier's ideas found partial expression.[2] In the later years of the nineteenth century there was a slight revival of interest in Fourierism and a mild propaganda movement was started by Raymond Duval, which secured at least one distinguished convert, the novelist Zola.[3]

Proudhon (1809–65) is chiefly remembered by the title of his best-known book, *What is Property?* a question to which he replied, 'Property is Theft'. But the impression conveyed by this phrase is entirely misleading. Proudhon was not an extremist, and he only fired off his paradoxes, as he himself said, like pistol-shots to startle the bourgeoisie and attract attention to his views. In his respect for private property he equalled Saint-Simon or Fourier. What he objected to was not the institution itself, but the abuse of it which allowed the idle classes to levy toll on the producers in the shape of rent and interest. It was this kind of property which he regarded as theft, not the property of the worker in the fruits of his toil. Indeed, in many of his views, Proudhon approximates very closely to the position of the classical economists and his ideal society bears a not very distant resemblance to the fanciful picture which Bastiat sketched of the existing system. It is a society in which are realized the three great principles of freedom of labour, freedom of competition and equal exchange of services. Exploitation has disappeared. No man reaps the fruits of another's toil, because the abuses of private property which permitted this have been removed. The expedient on which Proudhon relied to render property innocuous was the provision by the

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[1] There is some resemblance between the phalanstère and the village communities planned by the contemporary English socialist, Robert Owen (1771–1858). The two thinkers, however, reached their conclusions independently. Owen was of considerable importance in the early development of socialism but rather through his practical activities than his writings. See *Lives* by Podmore and Coles.

[2] See Chapter XI.

[3] The hero of his novel *Le Travail* is a Fourierist.

State of gratuitous credit. When every producer can obtain the capital he requires free of interest, property will have lost its power to give its possessor an unearned income, and labour will become the sole title to wealth. If the capital is advanced in the shape of inconvertible paper notes, then the provision of free credit will cost the State nothing. Over-issue may be prevented by limiting advances to genuine producers, so that the output of goods will keep pace with the increase in the currency. Proudhon's views on money, it need hardly be said, are no sounder than those of most theorists who have sought a remedy for social evils in a manipulation of the currency.

In his own lifetime, Proudhon obtained little public recognition, but his views were not altogether uncongenial to a nation of small producers like the French, and Proudhonism in some form or other has always found supporters in France. It was for long the official creed of the French labour movement, until displaced in the 'seventies by Marxism, and within recent years, the formation of a society, ' Les Amis de Proudhon ', is a fresh sign of the interest which this form of socialism continues to possess for French intellectuals.[1]

Louis Blanc (1811–82) attained during his lifetime a greater measure of popularity than any other socialist thinker of the period. He owes this distinction it must be confessed not to the depth or originality of his views but to the journalistic skill with which he caught up a number of ideas that were floating about in his time and gave them clear and intelligible expression. Blanc borrowed freely from Saint-Simon, Fourier and Proudhon, but his books were more readable than theirs and his system more simple and apparently practicable. His most important work on socialism was his *Organisation of Labour*, published in 1841. It was little more than a large-sized pamphlet, and for that reason reached a host of readers who would have shrunk from the labour of studying a heavy treatise. The position of its author, a distinguished journalist and politician of the July monarchy, also helped to extend its circulation. Blanc laid the blame for all the evils of modern society on competition, which he maintained must be replaced by some form of co-operative effort—not, however, by communal villages, as Fourier had suggested, but by communal or social workshops, owned and managed by the workmen themselves. A number of such workshops were to be set up and endowed by the government, and in this way the leaven was to be provided which would transform the whole of society. In competition with the social workshops, the private workshops would be hopelessly beaten, the former representing a superior type of industrial organization and being able to count on more faithful and ungrudging service from their workmen than the private capitalist. Through time, social workshops would multiply until private enterprise had been completely driven from the field. Thus competition itself would destroy competition, and the transition to the new social order would be accomplished peacefully and almost automatically. Society would develop into a federation or series of federations of social workshops, crowned by some supervising institution which would secure the harmonious working of the different parts of the system.

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[1] In 1920 the Society published a collection of tributes to Proudhon written by a number of young professors under the title of *Proudhon et notre temps*. The volume was edited by Professor Bouglé, author of *La Sociologie de Proudhon* (1911).

So simple and rational a scheme easily obtained a large measure of public support. Blanc's book ran through many editions, and was a universal topic of discussion in the stirring years preceding the Revolution of 1848. The Revolution itself, which gave Blanc a position in the government, seemed to provide an unrivalled opportunity for the realization of his views, but the result, as we shall see, fell far short of the anticipation.

Marxian Socialism

Karl Marx (1818–83) was born of Jewish parents at Trèves in Germany, but spent the greater part of his life in exile in London, and it was there that he composed his most famous work, *Das Kapital.* The first volume was issued in 1867; the two remaining volumes were published shortly after his death by his friend, Engels.

The socialism of Marx differs in three important respects from that of his French predecessors. Firstly, it is revolutionary. It anticipates the breaking up of the old system in a general social cataclysm, which may or may not be accompanied by bloodshed. Secondly, it appeals almost exclusively to one class of the community, the proletariat. And thirdly, it claims to be scientific, to be based not on ideals or sentiment but on a rigorous induction from facts and an impartial study of the laws of social development. The French socialists had sought a peaceful solution of social difficulties. They had appealed to all classes, desiring, as Fourier put it, 'a world in which all would be happy, even the rich'. And they had aimed at reorganizing society according to some principle of justice. Their chief defect was a tendency to regard society as a mechanism which could be taken to pieces like a watch and put together again according to some preconceived plan, whereas it is more akin to an organism like a plant, with a nature of its own and definite laws of growth, within which its development is necessarily confined. To this extent, the French socialists deserved Marx's contemptuous epithet of 'utopian' and it must be acknowledged that his method of investigation is markedly superior to theirs. With a juster view of the limits within which the social reformer must work, Marx established his socialism, first on a scientific analysis of the existing economic system, and secondly on a study of its historical development. His work, therefore, falls into two parts. It is on the one hand an exposition of economic theory and on the other an interpretation of history.

Marx's investigation of the existing economic system, though professedly impartial, was undertaken with a particular object in view, namely, to discover the secret of the social mechanism by which the capitalist is able to rob the labourer of the fruits of his toil. He based his explanations on the Ricardian law of value, and could thus claim that his theory was in strict accordance with the principles of the classical economy. The value of all commodities is measured and determined by the labour required to produce them,[1] but one commodity is distinguished from the rest by being the source of value greater than its own. This is human *labour-power*. (The distinction between *labour* and *labour-power*, it should be observed, is of cardinal importance in the Marxian theory. The one is the act of production, the other, the general capacity to produce.) The labourer sells his labour power to the capitalist, and receives for it its value in the form of wages. How is this value measured? In the same way as that of any other commodity, by the amount of labour required to produce it, or in other words, by the labour necessary to produce the food, clothing, housing, etc., which the labourer must have to maintain him in a state of working efficiency. But the labourer by working, say, ten hours a day can produce more than the value of his labour-power. He requires, say, only five hours to produce the commodities necessary for himself, so that during the other five hours he is producing *surplus value*, which the capitalist keeps for himself. Hence the anxiety of employers both to lengthen the working day and to reduce the portion of it during which the labourer is working for himself, and not for his master. This second object can be achieved through the introduction of machinery. Machinery does not directly produce surplus value, but it enables the labourer to do so by reducing the time he must spend on the production of his own necessaries.

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[1] It is doubtful how far Ricardo himself would have approved of this unqualified statement. His language on the subject is ambiguous, but sufficient justification can be found in his writings for stating his theory of value in this form.

Here, then, we have the explanation of the mysterious fact that the labourer submits without protest to be robbed by the capitalist. He does so because he does not realize that he is being robbed. He receives the fair equivalent of his labour-power according to the Ricardian theory of value. But the capitalist receives the greater value *produced by* his labour-power, the difference between the two being surplus value, which constitutes the capitalist's profit.

This is the Marxian theory of exploitation, but it is doubtful whether all this verbiage improves much on the simple statement of the French socialists that the labourer receives less than he produces. Marx's pseudo-scientific theory has the further disadvantage that it is built upon sand. The Ricardian law of value is no longer accepted by economists. It admits of too many exceptions. There are valuable things which have not been produced by labour, e.g., oil springs, building sites, etc., and there are things produced by labour which have no value, or at any rate no value in proportion to the labour expended on them, e.g., last week's newspaper, the productions of the amateur poet or artist, the election rosette of the beaten candidate on the day after the poll.[1] Marx's reasoning not only begins with a fallacy but it ends in a dilemma. If only human labour, and not machinery, creates surplus value, the highest profits should be earned by those businesses which employ a large amount of hand labour in proportion to machinery, whereas, of course, the precise contrary is the case. Marx's argument thus ends in a *reductio ad absurdum*, an infallible sign of some fatal flaw in the reasoning.

As a historian, Marx is deserving of greater respect than as an economist. His Materialist Conception of History states an important truth, though in an exaggerated form. The economic factor has played an important, it might even be said a preponderant part, in shaping the course of human history. The only mistake is to consider it as Marx does, the sole determining factor and the key to the spiritual no less than the material development of mankind. But this is only one side of Marx's work as a historian. His interest in history as in economics was a practical one and his object in studying it was to discover the direction in which society was moving, or rather, as we may not unfairly say, to show that it was moving irresistibly in the direction of socialism. The great law of capitalist concentration which Marx discovered at work in Europe since the sixteenth century was the agent by which the evolutionary process was to be accomplished. One capitalist, he says, devours many; the large businesses absorb the small; the division between classes becomes wider; the rich grow richer; the proletariat sinks deeper and deeper into poverty. At last, when all the means of production have been concentrated in the hands of a few multi-millionaires, and when the proletariat has reached the last depth of degradation, the hour of the social revolution will strike. The expropriators will in their turn be expropriated and the State will take over the whole machinery of wealth production. This event will be of a catastrophic kind, and will be led up to by a prolonged class-war between the proletariat and the bourgeoisie, the class-war being, in the Marxian philosophy of history, the midwife of progress.

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[1] The explanation is that *utility* is an indispensable element in value. No person will purchase an utterly useless article no matter how much labour it costs to produce.

Regarding this part of Marx's theory, it is only necessary to say that facts have stubbornly refused to conform to it. In industry, the law of capitalist concentration has operated up to a certain point, but has not led, as Marx believed, to the complete disappearance of the small business. In agriculture, on the other hand, the working of the law is hardly visible. Over the greater part of Europe the small agricultural producer is in possession of the field. Nor is the proletariat becoming progressively impoverished. On the contrary, it is increasing in comfort, while the general distribution of wealth is changing unmistakably in favour of the lower classes. There is hardly a particular in which the Marxian thesis has not been falsified by the history of the last fifty years. So clearly has this come to be recognized that it has produced a *revisionist* movement among Marxians themselves. In 1899, Bernstein, a member of the German Social Democratic Party, published a book on *Evolutionary Socialism*[1] in which he tried to show that Marx had not enunciated his theories with the precision that was usually attributed to them and that while the facts were admittedly at variance with the Marxian thesis in many points, the contradiction was not so sharp as to convict Marx of error. The concessions made by Bernstein were not sanctioned by the orthodox Marxians, who apparently regarded it as fatal to admit the possibility of any flaw in the philosophy of their leader. 'If I regarded the capitalist evolution as Bernstein regards it,' said Kautsky significantly, 'I frankly confess that I would consider socialism a serious blunder.' This would seem to imply that Marxism is inseparably bound up with a false theory of history, for obviously Bernstein has a juster conception of social evolution than either Marx or Kautsky.

'Marxian Socialism,' according to J. M. Keynes, 'must always remain a portent for the historian of opinion—how a doctrine so illogical and so dull can have exercised so powerful and enduring an influence over the minds of men and through them the events of history.'[2] A partial explanation of this historical paradox is probably that so few disciples of Marx have taken the trouble to read his books. This is especially true of his working-class supporters. They believe that *Das Kapital* contains a scientific statement of their case and an infallible demonstration of the inevitability of socialism, and they are content to believe this without inquiring too closely into the grounds of their belief. To the proletariat, Marxian socialism is not a theory but a banner, round which they rally in their secular battle with the bourgeoisie. *Das Kapital* is not an economic treatise, but a war-cry, a passionate shout of defiance hurled by the oppressed at their oppressors. By becoming a symbol of class hatred, Marxism has escaped the fate which sooner or later overtakes all partial and incomplete theories of social evolution.

Fabianism, Syndicalism, Bolshevism

It is a tribute to the importance of Marx in the history of socialist thought that all later forms of socialism have been either developments of his system or reactions against it. Fabianism must be placed in the second of these categories. It was the work of a number of English middle-class theorists in the 'eighties, of whom the most prominent were Bernard Shaw and Sidney Webb.[1] Their object was to restate socialism in the light of the most recent developments of economic science. Like Marxism, their doctrine had both a theoretical and a historical side. In their analysis of existing economic society, the Fabians avoided the errors into which Marx had fallen. They gave up the Ricardian law of value, but made effective use of the Ricardian law of rent and showed convincingly how large a proportion of the national wealth was consumed by the idle classes in the shape of rent and interest. This economic analysis supplied the Fabians with a critique of the existing system. Their study of history suggested the appropriate solution. During the later nineteenth century the trend of social development had been unmistakably in the direction of State control. The economically weaker classes had been granted statutory protection by means of factory laws, health laws, etc., while important branches of economic activity, like the postal services, the running of tramways, the provision of gas and water, had been taken over by public authorities. Accordingly the Fabians preached the inevitability of socialism with as much confidence as Marx, though on different grounds, and looked forward to a time when all the economic activities of society would be publicly controlled. These hopes have not been fulfilled. The development of State and municipal enterprise has not slackened, but it has been confined almost entirely to certain monopoly services, of which the post office is a type. It has not invaded the more competitive branches of trade. In other words, the tendency seems likely to stop short of the point at which it would bring about a social revolution. In every society, certain things must be publicly owned, e.g., the roads ; but public ownership of these things is quite compatible with the organization of society on a competitive basis. Similarly, the nationalization of railways, telephones, tramways, etc., does not in itself accomplish the transition from individualism to socialism. To put it briefly, socialism involves State control, but State control does not necessarily imply socialism. This is the truth which many Fabians have been compelled sadly to acknowledge.[2]

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[1] This is the title of the English translation. The German title is *Die Voraussetzungen des Sozialismus.*

[2] *The End of Laissez-Faire,* pp. 34–5.

Syndicalism may be regarded as a direct offshoot of Marxism, though it contains elements derived from Proudhonism, and from anarchism. It is a development of the twentieth century, due partly to the speculations of a number of French intellectuals, notably Georges Sorel, author of *Reflections on Violence* (1909), and partly to the lessons derived from the practical working of trade unionism. In the Syndicalist theory the trade union is both the instrument of social revolution and the unit of a new social order. The revolution is to be accomplished by the weapon of the general strike. Let the workers simply ‘ fold their arms ’ and the bourgeoisie will be brought to its knees. Thereafter each union will proceed to take over and manage its own industry. The State as an institution will become unnecessary, but contact between the different unions will be maintained by some kind of federation. In its hostility to the State, syndicalism reveals its affinity with anarchism. In its emphasis on the proletarian character of the socialist movement and its advocacy of the class war, it shows its descent from Marxism. Its revolutionary character makes a special appeal to the Latin temperament, and the chief homes of the movement are in France and Italy.

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[1] The Fabian Society, founded in 1884, took its title from the Roman Dictator, Fabius Cunctator, and the cautious policy which his name symbolized.

[2] *V.* Pease, *History of Fabianism*, pp. 242–3.

In England a milder form of syndicalism made its appearance about 1910, under the name of Guild Socialism. It resembled syndicalism in being a producers’ movement, and its supporters advocated the management of industries by the workers themselves, united into guilds. But they allowed a share in economic control to the consumer. Alongside the guilds which were associations of producers, consumers’ associations were to be founded, based on locality, and the State was to be retained to hold the balance even, should the interests of producers and consumers come into conflict.

Bolshevism, the latest brand of socialism, claims to be Marxism in action. According to Lenin, its chief intellectual exponent, the first concern of socialists is the social revolution, which must be accomplished, if necessary, by violence. Thereafter society will enter upon an intermediate stage, intermediate that is, between individualism and pure communism. During this period the capitalist State will be maintained, but applied to a new purpose. Formerly, it was used by the bourgeoisie to oppress the proletariat. Now it will be used by the proletariat to suppress the bourgeoisie. In Lenin’s view, the State, any State, must be an instrument of oppression. The only difference between the bourgeois State and the proletarian State is that in the one, the bourgeoisie, in the other, the proletariat, act as oppressors. The intermediate

State is therefore admittedly imperfect, not merely from the political but also from the economic point of view. Pure communism does not exist. Socialization is confined to the means of production and compulsion must be applied to induce men to work. But at some indeterminate date, this intermediate stage will come to an end and the era of pure communism will begin. Socialization will be extended to all forms of wealth, and men will work not for reward or to escape punishment but as a means of self-expression. The use of force, alike in the economic and the political sphere, will become unnecessary, and the State will gradually wither away. But this golden age is far off. Russia, despite the Revolution, has only entered on the intermediate stage and requires the Bolshevist dictatorship to conduct her to the final goal of undiluted communism.

The claim of the Bolshevists to be orthodox Marxians was contested shortly after the war by the German Majority Socialist, Kautsky, but Lenin had on the whole the better of the argument. He was able to point to a pamphlet written by Marx in 1875 in criticism of the Gotha programme of the German socialists, in which he clearly predicted a transitional period between capitalism and communism, and stated that ‘ the constitution (during this period) can be no other than the dictatorship of the proletariat ’. It is this dictatorship which the Bolshevists claim to have established in Russia. Lenin also contended that Marx would have approved of terrorist methods. Kautsky was able, it is true, to quote many passages from Marx's writings in which he gave the preference to parliamentary as contrasted with revolutionary methods, and conceived of the class-war as a peaceful struggle carried on by means of the ballot-box. But Marx did not consistently keep to this line. There were times when the revolutionary fervour gripped him and he talked the language of naked insurrection. Thus two strains are to be found in Marx, and it is possible for both parliamentarians and revolutionaries to claim him as their master. Bolshevism, it may be said, is the child of the revolutionary Marx. The parliamentary Marx is the parent of Kautsky's constitutionalism.

CHAPTER VIII

THE POLITICAL LABOUR MOVEMENT

IN every European country the rise of a class of industrial workers has been followed at longer or shorter intervals by a labour movement, an organized attempt of the wage-earners to improve their standard of life. This movement takes two forms. In the one case, the workers endeavour to wring concessions direct from their employers by voluntarily organizing themselves into economic associations known as trade unions. In the other, they attempt to capture the machinery of the State as a first step towards a reconstruction of the social order in their own interests. At some periods the working-class shows a preference for the method of direct industrial action. At others, it places its faith almost exclusively in political action. But, generally, the two phases of the movement proceed concurrently and exert a powerful influence on one another. In this chapter we shall confine our attention to the political phase of the labour movement.

POLITICAL SOCIALISM IN FRANCE

The Revolution of 1789 was not a socialist movement. It was inspired by the ideals of economic liberalism, and it did much more to safeguard the rights of property than to protect the rights of man. The only revolutionary movement with a socialist tendency was Baboeuf's communist conspiracy in 1797, and it only served to reveal how feeble were the forces opposed to the existing economic order. It was the men of property, the bourgeoisie and the peasant proprietors, who profited by the Revolution. The propertyless industrial worker gained nothing, not even the barren freedom which the Declaration of the Rights of Man declared to be his by natural law. A watchful government controlled his movements, and by its regulations seriously interfered with the mobility of labour. Each workman had to carry a *livret*, a little book containing the names of his previous employers with reports on his conduct. Without his *livret* he could not obtain a job. Workmen's combinations were strictly forbidden by law, and in industrial disputes the labourer faced his employer almost defenceless. Yet though in some ways so helpless, the urban proletariat occupied a position of some strategic importance in French politics which enabled it to play a decisive part at moments of crisis. In the highly centralized political system of France, governments were made and unmade at Paris, and an active minority, by obtaining control of the capital, could often impose their will on the rest of the nation. It was here that the Parisian workmen came in useful. They supplied the revolutionaries with an insurrectionary fighting force. In the Revolution of 1830, a pre-eminently middle-class movement, the Parisian masters closed their workshops and sent their workmen to man the barricades. Two years later, a republican revolt against Louis Philippe collapsed because the populace failed to rise.[1] This episode afforded convincing proof of the necessity of working-class support and during the closing years of Louis Philippe's reign all the opposition parties were actively bidding for the favour of the industrial workers. The course of events in 1848 was largely determined by these circumstances. The proletariat was resolved to exact a reward for its services. Vague socialist ideas had floated down to the lower classes, and in such phrases as the 'right to work' and 'the organization of labour' the workers thought they had discovered the secrets of a new and beneficent social order. They were resolved that in any event a serious attempt should be made to realize these ideas.

The Revolution of 1848, like its predecessor, was mainly a middle-class movement, and again the bourgeoisie owed its victory to the 'bare-armed fighting men' of the people. But this time the proletariat found itself in a position to dictate to its middle-class allies. The provisional government which was hastily set up after Louis Philippe's abdication had no armed force at its disposal. The regular army had incurred great unpopularity during the barricade fighting and had to be withdrawn from Paris. The middle-class force, the National Guard, was not yet sufficiently well organized to offer resistance to the armed workers, and the government found itself at the mercy of the Parisian mob, a mob with arms in its hands which it had shown it knew how to use. In these circumstances the authorities had no alternative but to temporize and to keep the populace in good humour by yielding to its demands. Louis Blanc suddenly found himself the most powerful man in France. He was able to secure a seat in the provisional government and to compel his unwilling colleagues to affirm the principle of the right to work in addition to passing various semi-socialist measures. But his chief demand, the appointment of a Ministry of Labour with powers to reorganize industry on a co-operative basis, was refused. All that his colleagues would concede was a Labour Commission, presided over by Blanc himself, to inquire into the social problem and to make recommendations. The creation of this commission was a clever move on the part of the moderates. It had the appearance of a concession and yet committed the government to nothing. The commission had no executive powers and no machinery by which it could enforce its decisions. It was a large body, including several hundred delegates, mainly workers chosen by various trades, who sat in the Luxembourg Palace. No practical result came of the deliberations of this early ‘ labour parliament ’ except the establishment of a few co-operative workshops and the reduction of the legal working day by one hour, a concession which was soon revoked. The government paid no attention to the commission's more radical proposals, and its lengthy report on Blanc's scheme of social workshops was simply shelved. As its powerlessness became plain, the members lost interest and turned to the more exciting game of political agitation. Soon the Luxembourg became the rallying-ground of the militant socialists and the focus of all activities directed against the provisional government. As such it was marked out for destruction the moment the government felt itself strong enough to defy the armed workmen of the capital.

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[1] This is the rising described in Victor Hugo's *Les Miserables.*

Meanwhile the unemployment and distress in Paris which had been powerful factors in producing the Revolution were rendered more acute by the general cessation of business activity, and the government was compelled to open national workshops as a means of relief. The name ‘ national workshops ’ is somewhat misleading. There were no workshops in the ordinary sense, only labour exchanges for the provision of relief work or of doles in default of work. Moreover, care must be taken to distinguish these national workshops from the social workshops of Louis Blanc with which they had absolutely nothing in common. The opening of national workshops was the regular French method of dealing with crises of unemployment and the government's action was in accordance with numerous precedents. On this occasion, the direction of the workshops was entrusted to a young engineer, Emile Thomas.[1] He brigaded the unemployed and assembled them daily at the Parc Monceau on the outskirts of Paris. From there they were sent out to such relief works as were available. Two francs a day were paid to employed men and one franc to others. Unfortunately it was impossible to provide more than a small fraction of the men with work. The great majority drew the lower rate of pay and were exposed to all the demoralizing influences of idleness. The number enrolled rose rapidly until in May there were 120,000 men on the books. The payment of relief to this vast army of unemployed was a heavy drain on the national exchequer, but in one sense, the money was well spent since it ensured peace in the capital during the critical period of mob rule. Thomas, an anti-socialist, acquired great influence over his men and used it to keep them loyal to the government. There was even a suggestion to arm the unemployed and use them against the militants of the Luxembourg. Though this proposal came to nothing, the existence of the national workshops had the effect of dividing the working-class forces and enabling the government to tide over the anxious period until its hands were strengthened by the return of a moderate majority to the legislature and it could venture to bring back the troops to Paris. Once in a position to crush opposition, it acted promptly. In June the Luxembourg Commission was dissolved and the national workshops were closed down. Immediately the two wings of the working-class movement coalesced and a formidable insurrection broke out which was only quelled after four days of the most savage street fighting ever witnessed by Paris or any other European capital.

The events of 1848 rendered the French labour movement impotent for another twenty years. In 1871 the rebellion of the Commune gave the Parisian workmen control of the capital for a few feverish months, but nothing permanent resulted from this transitory victory. The social programme of the communards was vague and they had no time to give practical expression to their ideas. The Commune left nothing behind it but a legacy of bitter memories to inflame class hatred and to aggravate the acrimony which is a normal feature of French party politics. Once more the French labour movement received a set-back, and it was not until 1880, when the passions excited by the Commune had had time to cool, that a regular socialist party began to constitute itself. The moving spirit in this revival was Guesde, a fanatical Marxist, under whose influence the new party definitely committed itself to Marxian socialism. But the intransigence of the Guesdists provoked a secession of the 'possibilists' under Brousse, and the Broussists in their turn suffered disruption at the hands of the Allemanists. To add to the confusion, a new group of Independent Socialists appeared, supported mainly by middle-class intellectuals like Jaurès, Millerand and Briand. Despite these divisions, French socialists of all shades of opinion worked together at elections and in 1893 forty socialist deputies were returned to the Chamber. Jaurès acted as the chief spokesman of this parliamentary group. These friendly relations were interrupted in 1899 when the Independent Socialist Millerand entered the Radical ministry of Waldeck-Rousseau. Jaurès defended Millerand's action and proclaimed the advantages of a policy of permeation. Guesde denounced all trafficking with the bourgeois parties and reiterated the doctrine of the class war. The quarrel between the two sections became very bitter and was not composed until 1904, when the International Socialist Congress at Amsterdam virtually pronounced in favour of Guesde's contention. Jaurès loyally accepted the decision and the schism was healed. The opposing groups were reunited in the Unified Socialist Party, of which Jaurès retained the leadership, and the fruits of reunion were soon visible in an increased socialist vote and an augmented representation in the Chamber. At the 1910 election 149 socialist deputies were returned. Jaurès continued to act as leader until his career terminated tragically by assassination on 31st July, 1914, the very day that war was declared. After the war the party lost ground. Its representation declined to sixty-eight and it was further weakened by a communist secession led by Cachin, the editor of Jaurès' old paper *L'Humanité.* In 1924 this set-back was partly made good when the Majority Socialists secured 102 seats and united with the Radicals to defeat Poincaré's government of the National Bloc. But no purely socialist ministry has been formed in France, nor will socialists take seats in bourgeois administrations. The policy of isolation imposed on the party by the Amsterdam Congress has been faithfully followed, except for a brief space during the war, when exceptional circumstances seemed to justify a departure from the rule.[1]

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[1] He published a defence of his administration entitled *Les Ateliers Nationaux de 1848*. It has been reprinted in Marriot's *French Revolution of 1848 in its Economic Aspect.*

[1] Even Guesde took office in a coalition war ministry.

GERMAN SOCIAL DEMOCRACY

The founder of German Social Democracy was Ferdinand Lassalle (1825–64), a middle-class Jew from Breslau, who combined conspicuous talents with the tastes and habits of a man of fashion. The new movement was not altogether fortunate in its leader. Lassalle had grave faults of character which marred his usefulness as a public man and led to more than one disagreeable episode in his career. In his youth, he played a somewhat ambiguous part in a notorious social scandal, and his life ended discreditably in a duel, arising out of a not too reputable love-affair. As a thinker, he has little claim to consideration, and the development of socialist thought owes nothing to him. But he had unsurpassed gifts as a political agitator, and it is his distinction to have turned the German working-class into a political force. In the German Social Democratic Party, of which he is the acknowledged creator, he has left behind him an enduring monument to his name.[1]

The most important events in Lassalle's career were crowded into the last three years of his life. He had suffered a period of imprisonment for his activities in 1848 and thereafter practically withdrew from politics until summoned back by the crisis of 1862. In that year, Bismarck engaged in a fierce quarrel with the liberals over an Army Bill which he wished to pass through the legislature despite the opposition of the lower house. The fate of constitutional government in Prussia seemed to depend on the issue of the struggle and it might have been expected that Lassalle's sympathies would have been with the progressive party. But he cherished a deadly enmity towards *laissez-faire* liberalism and he could not forgo this opportunity to indulge his hatred. In a public lecture at Berlin, he violently attacked the liberals, poured scorn on their constitutional doctrines and proclaimed himself a nationalist, though a democrat and a socialist. Shortly afterwards he founded the Universal German Working Men's Association, placing in the forefront of his programme the demand for universal suffrage. This purely political measure, however, was intended merely as a stepping-stone to important social reforms which should secure the economic emancipation of the working-class. But when Lassalle attempted to draft a social programme, he only revealed his weakness as a constructive thinker. Action, not speculation, was the sphere in which his talents best fitted him to shine and the social philosophy associated with his name is a shallow and uninspiring doctrine. His main proposal, the formation by State aid of workmen's co-operative associations, was obviously borrowed from Louis Blanc, and was miserably inadequate as a solution of the social problem. It is solely on his achievements as a political agitator that Lassalle's great reputation rests. Before the duel at Geneva abruptly terminated his career, he had succeeded in awakening the German workers to political self-consciousness and endowing them with a party organization for the realization of their ideals. These services are sufficient to explain the reverence with which his memory is still cherished by the German social democracy.

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[1] Lassalle's romantic career is the theme of Meredith's novel *The Tragic Comedians*. There is also a brilliant imaginative sketch of him in Zangwill's *Dreamers of the Ghetto*. For a soberer account, see W. H. Dawson, *German Socialism and Ferdinand Lassalle*.

While Lassalle was conducting his agitation in the north, a parallel socialist movement was developing in the south under the leadership of Liebknecht and Bebel. The southern socialists drew their aspiration from Marx and the party programme adopted at Eisenach in 1869 was pure Marxism. After Germany had attained political unity in 1871, negotiations for union were opened with the Lassalleans and successfully concluded in 1875. The two groups coalesced under the title of the Socialist Workmen's Party, a name which was later changed to the German Social Democratic Party. At a party congress at Gotha, a revised programme was adopted which made some concessions to Lassalle's nationalism but was in the main an embodiment of Marxian principles.[1]

Three years later the new party was suddenly called on to fight for its life. Bismarck had watched with unconcealed dislike the steady growth of social democracy, and in 1878 he resolved on a vigorous attempt to exterminate it by force. Two attempts on the life of the Emperor (with which the socialists had nothing to do) gave him the pretext he required, and he introduced an anti-socialist law into the Reichstag, placing a ban on all forms of socialist activity. The law was maintained for twelve years and enforced with the utmost rigour. But it entirely failed of its purpose. Despite the efforts of the police, the socialists were able to maintain and even to extend their organization. The party flourished under persecution and its voting strength steadily increased. In 1890 thirty-five socialists were returned to the Reichstag.

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[1] Marx, however, in a private letter, expressed strong disapproval of the programme.

The government became convinced at last of the futility of a repressive policy and the anti-socialist law was quietly dropped. Next year the socialist party met in congress at Erfurt and drew up a fresh programme which, though adhering more faithfully in detail to Marxian principles than the Gotha programme, was nevertheless a more opportunist document. The change was adopted partly with an eye to electoral advantage. It was hoped that the insistence on practical and immediate reforms would rally to the party all the elements in the Empire opposed to the existing social and political régime. The expectation was in large measure justified. The representation of the party went on increasing until in 1912 it became the strongest group in the Reichstag. But the provision in the German constitution which made the ministry dependent on the Emperor and not on the legislature robbed the socialists of the full benefit of their electoral successes. In this way the party paid the penalty for the failure of the liberals to establish constitutional government in 1862, a failure for which Lassalle was in some measure responsible.

The Revolution of 1918 brought a great accession of strength to the socialists, and it was a socialist government which carried through the transition from the Empire to the Republic.[1] But the party suffered in prestige through the humiliations inflicted on Germany in the period after the Armistice, for which its leaders had to accept responsibility. This was reflected in the 1920 elections when a big transfer of votes took place from left to right and the reorganized bourgeois parties came back with increased strength. The purely socialist government of the first months of the Republic was succeeded after 1919 by a series of coalitions in which the bourgeois elements steadily obtained an increasing share of control. After 1922 indeed, the socialists were for the most part in opposition. The party was still the strongest in the Reichstag, but it was in a minority compared with the combined anti-socialist groups, and its power to influence political events was greatly weakened. The comparative failure of the socialists reveals the true significance of the German Revolution of 1918. It was a middle-class revolt against the junkers. The class which profited most by the downfall of the old régime was not the workers but the industrial capitalists. They stepped into the places vacated by the junker aristocracy and succeeded to most of the social

[1] The first President of the German Republic was a socialist working man, Ebert.

and political influence which had formerly been exercised by the members of that class.

The British Labour Movement

The political aspirations of the British working-class first found definite expression in the Chartist movement (1838–48). The driving force behind Chartism was social discontent, springing from the intense misery suffered by the English manufacturing population in the 'thirties and 'forties of last century; but its programme was political. The Chartists demanded manhood suffrage, payment of members and vote by ballot. These measures, of course, were regarded merely as means to an end. The capture of political power by the workers was to be the first step towards the establishment of a better social system. But on the use that was to be made of political power, once it was attained, the different sections of Chartists were not agreed, and the concentration on a programme of purely political reforms only served to cover up fundamental diversities of aim and view-point amongst the leaders and to conceal one of the fatal weaknesses of the movement.

The Charter with its famous Six Points [1] was originally drafted by a small group of London artisans under the direction of William Lovett. It was issued in 1838 and was enthusiastically welcomed by the factory operatives of the north who were already engaged in an active agitation against the new Poor Law (*v.* Chap. XIII). In the midlands also it obtained a considerable amount of support. London, the midlands and the north were the three centres of Chartism. The leader of the northern Chartists, by far the most numerous group, was Feargus O'Connor, an unscrupulous Irish demagogue, who exercised great influence through his ownership of the most successful of the Chartist newspapers, the *Northern Star.* The agitation in the midlands received a certain measure of middle-class support, but this was speedily withdrawn when the revolutionary designs of the more advanced Chartists became apparent. The leaders of the London group were interesting examples of the self-educated artisan of the time, but for lack of the popular arts of the mob-orator, they never obtained that authority in the movement to which their ability and disinterestedness entitled them. The rank and file preferred to give their allegiance to frothy middle-class adventurers like O'Connor who had neither the intellectual nor the moral qualities required for the leadership of a great movement.

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[1] (1) Manhood suffrage; (2) Vote by ballot; (3) Annual Parliaments; (4) Abolition of property qualification for M.P.s.; (5) Payment of members; (6) Equal electoral districts.

In 1839 a petition in favour of the Charter was presented to Parliament and rejected by a large majority. This check immediately produced a split in the movement. The 'moral force' advocates like Lovett wished to continue the agitation by peaceful means. The 'physical force' men favoured resort to violence, either by the declaration of a general strike [1] or by the organization of an armed rebellion. Since it was an easy way to win popularity, O'Connor supported in words at least the physical force section and talked the language of revolution with great gusto. His speeches and writings tended to give the whole movement a revolutionary appearance, and thereby deprived it of whatever chance of success it might have had. The policy of the physical force men was worse than useless. They could talk but they could not perform. As events showed, they were quite incapable of organizing a general insurrection, and their wild language and futile violence only succeeded in frightening away middle-class sympathizers and bringing discredit on the perfectly constitutional agitation of the moderate Chartists. The threats of the extremists never issued in more than sporadic and isolated acts of violence. In 1839 a small Chartist rising took place at Newport, and three years later an epidemic of strikes broke out over the north and midlands of England.[2] But these outbreaks simply provided the authorities with an excuse for locking up the principal Chartists and depriving the movement of its natural leaders.

The last great Chartist demonstration took place in 1848, 'the year of revolutions'. A monster petition was prepared for Parliament and a gigantic meeting was arranged on Kennington Common, London, whence the petition was to be carried in procession to Westminster. The government, ridiculously exaggerating the danger, filled the capital with troops and raised a volunteer force of 150,000 special constables. When the meeting took place, the demonstrators, about 20,000 in number, were refused permission to march to Westminster, and after a few half-hearted attempts to cross the Thames bridges, they quietly dispersed to their homes. O'Connor carried the petition in three cabs to the House of Commons, where it was received with shouts of laughter.

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[1] A 'National Holiday' or a 'Sacred Month' were the terms used at the time.

[2] This episode is sometimes called the 'Plug Plot' because the strikers knocked the plugs out of the boilers in order to cut off the supply of steam-power.

Chartism never recovered from the effects of this fiasco, and within the next few years the movement gradually died away. Its failure was almost inevitable. The workers of a century ago had neither the education nor the political experience to conduct a successful agitation without assistance from the middle-classes, and middle-class support was refused to a movement which provoked social disorder and encouraged attacks on property. Chartism failed for many reasons: through bad leadership, divided counsels and an impracticable policy, but above all, because it was premature.

The most important reform demanded by the Chartists was later obtained without much difficulty as the result of a joint middle- and working-class agitation led by Gladstone and Bright. The grant of the franchise to the town workers in 1867 and to the agricultural labourers in 1884 established manhood suffrage in England and seemed to prepare the way for a definitely working-class party. But this natural development was slow in materializing. Two miner candidates, Macdonald and Burt, were returned to Parliament in 1874, but they were elected mainly by liberal votes and differed little from ordinary members of the liberal party. The term 'liberal-labour' came into use about this time to designate liberal candidates who were also working men. By 1886 there were eleven liberal-labour members in Parliament. But the group showed little independence and voted in nearly every instance in the same lobby as the liberal party.

The first impulse towards a genuinely working-class party came from Scotland. In 1888, Keir Hardie, a young miners' leader, stood at a by-election against both the liberal and the conservative candidates. He was hopelessly beaten, but his candidature led to the formation of the Scottish Labour Party, to promote independent working-class representation in Scotland. In 1892, Keir Hardie secured election as an independent labour candidate for West Ham and caused a mild sensation by arriving at the House of Commons in a wagonette with a key-bugle playing in front of him. The following year he was instrumental in founding the Independent Labour Party, a socialist body definitely opposed to any working agreement with the liberals. For some years the

I.L.P. ran parliamentary candidates of its own, but with very meagre success, and Keir Hardie became convinced that no labour movement was practicable without the backing of the trade unions. Accordingly, he and his friends made it their object to persuade the trade union congress of the need for an independent working-class party. In 1899 they carried their point. The congress resolved to call a conference of trade union, socialist and co-operative organizations to consider means to increase the number of independent labour members in Parliament. The outcome of the conference was the formation of the Labour Representation Committee, the germ of the future Labour Party.

The Labour Representation Committee was a typical expression of the opportunism which has so often succeeded in English politics. It was admittedly an anomalous body. The elements of which it was composed, chiefly trade unions and socialist societies, differed from each other in fundamental respects, and for this reason it was found impossible to base the organization on a clearly defined political programme. The only point in which the different partners in the alliance were agreed was the need for an increased working-class representation in the House of Commons, but this common aim was sufficient to hold them together. Nevertheless, the first results of the new venture were not auspicious. At the general election of 1900, the Labour Representation Committee ran fifteen candidates, but only two were elected. The following year, however, the movement received momentum from an unexpected quarter. The decision in the Taff Vale case (*v.* p. 147) seemed to jeopardize the very existence of trade unions, and the working-classes, thoroughly alarmed, rallied in support of the organizations on which they chiefly relied for the maintenance of their standard of life. A great impetus was given to the movement for independent working-class representation, and the result was seen in the general election of 1906, when twenty-nine labour members were returned to Parliament. The Labour Representation Committee proceeded to change its name to the Labour Party, and in 1910 it received a further accession of strength when the miners' M.P.s, who had hitherto stood aloof from the movement, announced their adhesion. A compact labour group of about forty members was thus formed in the House of Commons. But the party was hampered by its old association with the liberals which it was not easy to shake off. Most of the labour members indeed owed their seats to private arrangements with the liberal party, and in Parliament the labour group could do little more than consistently support the measures introduced by the liberal government. Complete independence was not achieved until the election of 1918, when the labour party secured a larger representation than the liberals and definitely emerged from its state of tutelage. It became the second party in the State and assumed by right the place of His Majesty's Opposition. The independence of the party was further emphasized when in 1924 it was called on to form a government. The practical achievements of the first Labour government were small, and it only held office for nine months. But its political significance was very great. It was the outward sign of a momentous revolution which had been silently taking place in British politics. Since the Reform Act of 1832 the middle-classes had been the undisputed masters of the State. Now their monopoly of political power was challenged. The British working-class had at last become politically conscious and in the labour party it had discovered an instrument by which it might make good its claim to a share in sovereignty. The year 1924 forms the starting-point of a new era in British political history.

The International Labour Movement

The course of the international labour movement has been hitherto bound up with the fortunes of the three great Internationals. The first International was very largely the creation of Marx. In 1862, Napoleon III sent a delegation of French working men to visit the Exhibition at London, and Marx, who had been for many years a political exile in England, took advantage of their presence to discuss plans for an international socialist organization. London at this time was full of political refugees and it was easy to get together a representative cosmopolitan gathering. It was at a meeting of this kind held in 1864 that the first International Working Men's Association was formed. Marx drafted the constitution and took a prominent part in the work of the new organization. During the next few years branches were established in the chief European countries and annual congresses were held. In official quarters the International excited great alarm and it was fiercely denounced in the conservative press. But the terror it inspired had little justification. The International was a feeble body, torn almost from the first by fatal dissensions. The authority of Marx was resolutely challenged by the anarchist Bakunin, who made a determined effort to get control of the organization. After a fierce faction fight, Bakunin and his followers were expelled at the congress of 1872. But the International never recovered from the effects of this disruption. Its membership and influence continued to decline, and Marx in despair removed its headquarters to New York, where it quietly expired in 1876.

The second International was formed in 1889. In that year a conference at Paris was attended by socialists from all countries and arrangements were made to hold similar conferences triennially. Eleven years later an international socialist bureau was set up at Brussels to keep the different national labour movements in touch with one another. By 1914 twenty-seven countries had become affiliated to this organization. The war automatically dissolved the Second International, but it was revived in 1919 and secured the adhesion of the majority socialist parties in most European countries. Its programme is one of moderate socialism to be achieved by constitutional methods.

The Third or Moscow International came into existence in 1919. It is an avowedly bolshevist body, proclaiming the doctrines of the class war and the dictatorship of the proletariat. Various groups of minority socialists or communists throughout Europe are affiliated to it, but its chief strength is derived from Russia and the Russian Soviet government. It is uncompromisingly hostile to the Second International, and the quarrels between the two bodies have indefinitely postponed any real attempt to establish solidarity among the national labour movements of Europe.

CHAPTER IX

THE INDUSTRIAL LABOUR MOVEMENT

THE organ of the industrial labour movement is the trade union, 'a continuous association of wage-earners for the purpose of maintaining or improving the condition of their working lives' (Webb). Of all the associations into which the worker enters, the trade union has most pronouncedly a working-class character. Unlike the political labour movement described in the last chapter, trade unionism appeals almost exclusively to the wage-earners; it can count on little support from middle-class opinion; and its leaders are drawn from the same social class as its rank and file. It is, in short, a working-class movement *pur sang*. There is therefore point in the remark that 'until there are trade unions, there is no labour movement'.[1] It is in the ranks of his trade union that the worker first achieves class-consciousness. He comes to realize his position as a wage-earner before he understands and values his privileges as a citizen, and the trade union which fights the battle of his daily needs commands his allegiance in a higher degree than the political labour parties with their wider but vaguer social programmes. Trade unionism is indeed the cement of the working-class movement. Amongst the many varied elements which make up the army of labour, it is the trade unions which have hitherto presented the most united front, shown the strongest powers of resistance and displayed the greatest capacity for steady if slow advance. In the words of the author already quoted, 'they are and they remain the essential basis of the working-class movement'.[2]

Trade unionism is the child of industrialism. When the development of capitalist production proceeds so far that the worker is deprived of all chance of becoming a master, when he realizes that he is condemned to be a wage-earner all his life and learns by bitter experience that he is no match for his employer in bargaining power, then he combines in selfdefence with his fellows and trade unions come into existence. It is in England, the first country to be industrialized, that we must seek for the earliest examples of this tendency.

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[1] Cole, *A Short History of the British Working Class Movement*, Vol. I, p. 15.

[2] Cole, *op. cit.*, p. 15.

Trade Unionism in Britain

In the early eighteenth century quite a number of English industries had developed sufficiently far on capitalist lines to create a deep cleavage between employers and employed. Examples are to be found in the cloth industry, the fashionable tailoring trade, the occupations of gold-beating and felt-making. In such trades, industrial disputes organized by temporary combinations of workmen were of frequent occurrence. Thus as early as 1699 we read of a strike amongst the London felt-workers. But it was only as the industrial revolution crowded a mass of impoverished proletarians into factory towns that the formation of workmen's associations became a regular practice. The earliest trade unions were mostly small local clubs and their main object was not so much to engage in collective bargaining with employers as to secure the enforcement of labour laws passed at earlier periods for the protection of the worker.[1] The legislature was not unfriendly to such an object, but it regarded the union as usurping functions properly belonging to itself, and this could not be tolerated. Accordingly, during the eighteenth century a large number of special statutes were passed, dissolving particular trade unions on this ground. But no general statute was enacted against trade unionism until the Combination Laws of 1799 and 1800. This legislation was the outcome of the panic created in the minds of the governing classes by the excesses of the French Revolution. The legislature was seized with an unreasoning dread of all forms of popular association, and made no attempt to discriminate between political societies which might be seditious, and trade unions which existed at that time solely for industrial purposes. Both were placed without distinction under the ban of the law. Trade unionism was declared a criminal movement. Any worker who joined a trade union or took part in a strike became liable to summary trial before two magistrates and on conviction to a penalty of three months' imprisonment. In addition to the Combination Laws, the authorities had another and a deadlier weapon to use against trade unionism. The law of England had always regarded combinations with suspicion and a combination for an unlawful purpose was a conspiracy punishable by heavy sentences of imprisonment. The Combination Laws stamped trade unions as criminal associations and exposed their members to all the severe penalties imposed on conspiracy. In 1810 several journeymen printers of *The Times* were sentenced to two years' imprisonment for taking part in an industrial dispute. The severity of the sentence shows that the prosecution took place under the law of conspiracy, the maximum sentence that could be imposed by the Combination Laws being only three months' imprisonment. Yet the distinction was not realized by the public and much of the unpopularity of the Combination Laws was due to the heavy sentences imposed on trade unionists found guilty of conspiracy. Of the two, the law of conspiracy was probably the more effective in driving the trade union movement underground. That it was not utterly crushed out of existence was due partly to the absence of an efficient police force at this time, partly to the inertia of the masters, who were disinclined to set the law in motion, provided their workers remained quiescent. Yet prosecutions often took place, and many cases of injustice and oppression occurred. The testimony of a well-informed contemporary [1] is worth quoting :

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[1] An important example of such protective legislation was the Elizabethan Statute of Apprentices, 1563.

> ' Could an accurate account be given of proceedings, of hearings before magistrates, trials at sessions and in the Court of King's Bench, the gross injustice, the foul invective and terrible punishments inflicted would not, after a few years have passed away, be credited on any but the best of evidence.'

The Combination Laws remained on the Statute Book until 1824. Their repeal was due to the ingenious wire-pulling of Francis Place, ' the Radical Tailor of Charing Cross '. Place had once been a workman himself, and, though no believer in the efficacy of trade union action, he considered that the law was unduly weighted against the worker. He cherished the illusion that the concession of complete freedom to combine would teach workmen the uselessness of trade unions and lead to their rapid disappearance. ' All,' he said, ' will be as orderly as even a Quaker would desire.' In 1824, Place, who was in close touch with the leading Radicals in the House of Commons, especially Joseph Hume, succeeded in getting a bill passed quietly through Parliament, declaring trade unions lawful bodies [1] and, what was almost as important, exempting them from the common law of conspiracy. The immediate consequences of the new law surprised and disappointed Place. The workmen made use of their liberty to engage in a series of strikes, and, from end to end, the country was convulsed with industrial disputes. Immediately the employers became alive to the significance of what had been done in Parliament and, led by the powerful shipping interest, commenced an agitation for the re-enactment of the Combination Laws. The vigorous opposition of Place and his friends averted this result, but in 1825 an amending Act was passed which deprived trade unions of the exemption from the law of conspiracy conferred on them by the Act of 1824. The withdrawal of this privilege was a great blow to trade unionism and crippled its activities for another fifty years. When, as actually happened in a case in 1832, the mere announcement of an intention to strike might be treated as evidence of a conspiracy, there was little scope for normal trade union activity within the limits of the law. Formal recognition was all that trade unionism gained by the Act of 1825.

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[1] Francis Place ; *v.* his biography by Graham Wallas, p. 198.

Nevertheless, the legal disabilities from which trade unionists suffered did not deter them from embarking on ambitious programmes which were obviously beyond their strength. During the next few years the idea of one vast industrial union embracing all workers haunted the imagination of trade unionists. In the early 'thirties a number of attempts were made to realize this grandiose conception, the most successful of which resulted in the foundation of the Grand National Consolidated Trades Union in 1834. The membership of this organization was said at one time to have reached half a million. Agricultural as well as industrial workers were enrolled in its ranks. The intellectual guide and prophetic inspirer of the Grand National was the philanthropist, Robert Owen. By a curious anticipation of syndicalist ideas, Owen proposed that the trade unions should take over the chief industries of the country and run them on behalf of the workers, the masters having previously been compelled to abdicate their position by the threat of a general strike. Such a programme was far beyond the power of the Grand National to execute. The heterogeneous elements of which it was composed could not be induced to concentrate on a common policy. Each section had particular grievances which it wished to see remedied at once, and united action became impossible. The Grand National frittered away its resources in a series of local strikes which drained its funds and enabled the masters to beat it in detail. Before the close of the year it came to an end, silently and ingloriously, its decease being hastened by a prosecution instituted against some agricultural labourers of Tolpuddle, Dorsetshire, who had established a branch of the Grand National in their village. By a strained interpretation of the law, they were convicted of administering an unlawful oath to new members, and sentences of seven years' transportation were imposed.[1] Immediately an agitation was commenced to have the sentences remitted, and it was ultimately successful, though not until the prisoners had spent four years at Botany Bay. Long before that the Grand National had passed out of existence.

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[1] Lawful in the limited sense that membership of them was not a crime. Trade unions were not recognized as lawful bodies in the full sense until nearly fifty years later.

The disappointment of the high hopes excited by the Grand National in 1834 created a feeling of disillusionment amongst trade unionists and led many of them to transfer their activities to the political Chartist movement. But trade unionism was not allowed to die, and after an interval it recovered much of the ground it had lost. During the 'forties and 'fifties efforts at reconstruction were quietly proceeding from which there emerged a new type of union and a new type of trade union leader. The Amalgamated Society of Engineers was the earliest and best example of the 'new unionism' of this period. It was formed in 1850 through the fusion of about half a dozen small engineering crafts, and it was distinguished from any previous type of working-class combination by the following characteristics: It was a national and not a local union; it was confined to skilled workers; it levied high subscriptions; and it supplied its members with friendly society benefits. The new organization was remarkable for its financial strength. It accumulated large funds for the provision of sick and unemployment benefit, which it was ready to use if required in the furtherance of a trade dispute. It had therefore more staying power than any previous form of working-class organization.

Appropriately enough, the new tendencies in trade unionism first showed themselves amongst the important craft of machine-makers, but they soon spread to workers in other occupations. During the 'fifties and 'sixties a large number of unions were founded on the model of the A.S.E. and gradually the industrial labour movement re-formed its broken ranks. Its leadership passed into the hands of moderate men, with cautious, limited views, and a talent for business administration. Unlike the heated enthusiasts who had guided the movement in 1834, the trade union leaders of the 'sixties held no revolutionary doctrines and cherished no ambitious projects. In politics most of them were Gladstonian liberals, and they even accepted without demur the current teaching of the economists regarding the futility of trade union action. Their industrial policy was pacific. They discouraged strikes and concentrated on the achievement of small measures of improvement by friendly negotiation or by legal enactment. They were just the leaders which trade unionism required to rescue it from the slough into which the revolutionaries of 1834 had led it. Gradually the movement reconstituted itself on a new and firmer basis, and proof of its growing vitality was afforded in 1859, when an attempt by the London builders to force a repudiation of trade unionism on their workers was decisively defeated. This success wiped out an earlier reverse in 1852, when the engineers had been compelled at the close of a disastrous strike to sign a document renouncing their trade union membership.

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[1] The prosecution was conducted under a statute of 1797, passed with special reference to the naval mutiny at the Nore. One of the Six Acts of 1819, directed against unlawful oaths, was also made use of.

While trade unionism was thus slowly consolidating its position, two events occurred in the middle 'sixties which placed the whole movement in great peril. One of these was an outbreak or rather a renewal of trade union outrages at Sheffield, where the grinders had long been in the habit of using violent means to coerce non-unionists. This time the outrages were given wide publicity and provoked an outburst of public indignation, followed by a virulent campaign against trade unionism in the press. The other event was a legal decision which deprived trade unions of protection for their funds. The Act of 1825, it should be explained, had not made trade unions legal bodies in the sense that they could plead as *personæ* in a law court. It had merely declared them no longer criminal associations. But they had still no proper legal standing, and they could not for example prosecute a dishonest official for embezzling their funds. Most trade unions had evaded this difficulty by registering themselves as friendly societies, which indeed they nearly always were. But in 1867, in the case of Hornby *v.* Close, the courts decided that trade unions could not avail themselves of the privileges of friendly societies. Thus the unions were left defenceless and any official or indeed any person was at liberty to plunder them with impunity.

The situation called for legislative action and the government appointed a royal commission on which Frederic Harrison and Tom Hughes, two middle-class sympathizers with trade unionism, had seats.[1] The report of the commission was on the whole favourable to the unions. The commissioners had to acknowledge that the majority of trade unions were peaceful law-abiding bodies, and that the Sheffield outrages were quite exceptional. There could therefore be no question of reviving the Combination Laws. But on the question of the legal recognition to be given to the movement, there was a difference of opinion. In opposition to the majority, Harrison and Hughes pressed for the concession of a privileged position to trade unions which would give them the right to sue in law courts but would exempt them from liability themselves to be sued. The justification for this apparently illogical and even unjust arrangement was that no trade union could function properly if exposed to the constant threat of actions for damages. Its control over its members, especially in moments of excitement, is slight, and, if held responsible for every action committed by them, its funds would be rapidly drained away. With some reluctance the government accepted the proposal of Harrison and Hughes, and embodied it in the Trade Union Act of 1871. But it accompanied this concession with a Criminal Law Amendment Act which greatly extended the scope of the old law of conspiracy as applied to trade unions. The trade union leaders refused to accept this second Act and in 1875, after the conservatives had succeeded the liberals in office, it was replaced by the Conspiracy and Protection of Property Act, which set definite limits to the application of the law of conspiracy in industrial disputes. The legislation of 1871–5 was a great victory for trade unionism, and conferred very substantial benefits on the movement. It gave it an advantageous position in the eyes of the law and relaxed most of the legal restrictions which had hitherto interfered with the effective use of the strike weapon.

The next important development in British trade unionism was its extension to the large army of unskilled labourers. Hitherto, practically none but highly-paid skilled workers had been trade unionists. It was only in the eighteen-eighties

[1] Harrison was the leader of the English positivists. Hughes was the well-known author of *Tom Brown's School Days*.

that the unskilled labourer was brought within the scope of trade union organization. This fresh development was due to the activities of three labour leaders: John Burns, Tom Mann and Ben Tillett. They made themselves the apostles of a ‘ new unionism ’. The older unions, they argued, had become stagnant. In their anxiety to safeguard their friendly society funds, they had become timid about declaring strikes and unwilling to take aggressive action against the employers. The time was ripe for a new kind of union, a purely fighting body, without friendly society benefits and with low subscription rates. Such a union would be able to enrol unskilled labourers who could not afford the high subscription demanded by the older unions. Moreover, being unhampered by friendly society activities and funds, it could concentrate on the pursuit of a vigorous industrial policy. The ‘ new unionism ’ obtained great publicity through the outbreak of a number of strikes amongst unskilled labourers in the ’eighties. The most celebrated was the London Dock Strike of 1889, when the docker won his ‘ tanner ’ an hour, largely through the support of public opinion, which for once was on the side of the strikers. The ‘ new unionism ’ led to the formation of many general labourers’ unions and considerably augmented the number of organized workers. But it did not, as was at one time anticipated, produce any notable change in the methods of the older unions. They continued as before to distribute friendly society benefits, which were not only useful in themselves, but gave the worker an additional motive for remaining loyal to his union.

With the opening of the twentieth century British trade unionism again came into conflict with the law courts. In 1901, the Taff Vale Railway Company brought an action against the Railwaymen’s Union for damages committed during a strike. It was confidently anticipated that, in terms of the Act of 1871, the action would be dismissed as incompetent. But the judges arrived at a wholly unexpected decision. They held, to quote the words of Lord Halsbury, that ‘ if the legislature has created a thing which can own property, which can employ servants and which can inflict injury, it must be taken to have impliedly given the power to make it suable in a court of law ’. The action was allowed and the union was mulcted in heavy damages. The Taff Vale decision created consternation amongst trade unionists, who saw themselves deprived at one stroke of the privileged position conferred upon them by the Act of 1871. An agitation was at once commenced for legislation to undo the results of the decision, and in the course of it the modern Labour Party was born (*v.* p. 137). In 1906 the bill presented by the representatives of the new party in Parliament was accepted by the government and passed into law as the Trades Disputes Act. It declared in unmistakable language that trade unions were not suable in courts of law.

Three years later the battle between trade unions and the law courts was resumed. In the Osborne Case of 1909 the courts refused to sanction a political levy imposed by a union on its members, on the ground that political action was not one of the objects of trade unionism mentioned in the Act of 1871. The fact that such reasoning would have ruled out the friendly society activities of unions as well was conveniently ignored. Once more the legislature had to step in and give relief. In 1913 political levies were authorized, provision being made for the ‘ contracting out ’ of conscientious objectors.

The years immediately succeeding the war brought a great accession of strength to British trade unionism. The total membership rose from 4 millions in 1914 to 8 millions in 1920.[1] At the same time there appeared a marked tendency to federation and amalgamation among unions, with which was bound up a movement to supersede the old type of craft union by unions based on industries. Industrial unions were actually formed in the railway, transport, building, printing and other trades. The growth of industrial unionism was a symptom of a general consolidation of working-class forces which was taking place at this time and which also found expression in the demand for ‘ one big union ’ and for the use of the general strike as a means of coercing the employers. These various tendencies came to a head in the great industrial dispute of 1926 when the trade union congress declared a general strike in support of the miners. The strike itself was a complete failure, but it revealed in an amazing fashion the blind loyalty with which the rank and file trade unionist was prepared to follow the orders of his leaders. The working-class movement displayed in this crisis a discipline and a solidarity which took both friends and foes completely by surprise. Despite its incompetent handling and humiliating conclusion, the general strike of 1926 may well appear to future historians as a decisive epoch in British working-class history. In the following year the Trade Union Act of 1927 declared general strikes illegal.

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[1] But the trade slump after 1920 produced a decline. By 1925 the membership had fallen to 5 millions.

Trade Unionism in France

Even before the advent of industrialism France had in the *compagnonnage* a form of workmen's combination which had existed since the Middle Ages. The custom of the *wanderjahr,* which was a regular one on the Continent, though not in England, gave rise to this interesting organization. Each journeyman, before starting in business for himself, made a tour of the chief industrial centres of his country, working a short period at each and adding to his technical knowledge and experience. On his way he was helped by his *compagnonnage,* which was an association of unmarried journeymen, not in one but in several trades. In each important town the *compagnonnage* maintained an inn or hostel, where travelling journeymen might obtain rest and refreshment, while local officials, the 'first *compagnon*' and the *rouleur,* placed men in jobs, sent them away if employment was scarce, or advised other centres in the event of a shortage of labour. Two of the best known *compagnonnages* in France were the 'Children of Solomon', a fairly liberal body, which admitted members without distinction of religion and was strongly supported by the Protestant workmen of the south, and the 'Children of Master James', a Catholic organization, supported mainly by the building crafts. Generally, a *compagnonnage* included the workmen in a number of trades, but it was subdivided into smaller sections or *devoirs* which roughly coincided with the division into crafts. The *devoirs* practised a good deal of masonic ritual. They had elaborate initiatory rites, ceremonial methods of greeting, secret signs and passwords. Their members wore specially coloured ribbons and carried loaded canes which they were always ready to use on slight provocation against the members of a rival craft. By their turbulence the *compagnonnages* were a constant source of disturbance and of anxiety to the authorities. Pitched battles often raged for days between rival sections, necessitating the use of the military to restore order.

Compagnonnages persisted, particularly in the building trades, right down to the second half of the nineteenth century. But they were a survival from a former age and unadapted to modern industrial conditions. Gradually they gave place to fighting trade unions of the modern type, or, as they were called in France, *sociétés de résistance.* The *sociétés* began to be numerous during the 'thirties and 'forties of the nineteenth century, a period which coincided with the beginnings of industrialism in France. The time was one of grave industrial unrest, and a succession of serious strikes, often accompanied by bloodshed, were symptoms of the uneasy transition through which society was passing. In 1831, and again in 1834, strikes among the Lyons silkworkers culminated in open rebellion. The weavers covered the industrial quarter, the Croix Rousse, with barricades, and inscribed on their banners the famous legend, ' Live working or die fighting '. Both risings were put down by military force. In 1844 a serious dispute occurred among the miners of the Saint-Étienne coalfield, where again the military were employed, and in the following year a strike broke out amongst the Paris carpenters. This time the strikers were successful. They forced the masters to concede an increase in wages from 4 francs to 5 francs a day. The Paris dispute has a special interest as one of the last examples of industrial activity by a *compagnonnage.*

All this time both trade unions and *compagnonnages* were operating in defiance of the law. Workmen's combinations were illegal in the eighteenth century and the Revolution of 1789 led to no change in this respect. The legislators of the revolutionary assemblies were strong individualists who did not interpret ' liberty ' as including liberty to combine. They distrusted all forms of association and their dislike of workmen's combinations was sharpened by the disorders which occurred in the early years of the Revolution among the unemployed workmen of the capital. In 1791 the famous law, known from the name of its promoter as the ' Loi Chapelier ', pronounced workmen's associations illegal. This law was confirmed by another statute in 1834 and strengthened by various provisions against intimidation and violence in the Napoleonic Code. Between 1825 and 1847, 200 workmen on an average were imprisoned annually for taking part in illegal combinations. The law, however, was not enforced with sufficient rigour to crush trade unionism completely out of existence. Workmen's combinations continued to be formed, and even in certain cases to be recognized by the masters, as was the case with the Paris printers' union established in 1839. Many trade unions, also, evaded the law by disguising themselves as *mutualités*, or friendly societies.

The legal ban on French trade unionism was not removed until 1864. In that year the penalties prescribed by the Code against illegal combinations were abolished, and workmen were free to form combinations and conduct strikes. But such combinations could only be spontaneous and temporary.

The law still forbade the formation of permanent associations of workmen, or *syndicats*—to use the French legal term. Nevertheless, in 1868, the government announced that it would take no proceedings against workmen's syndicates, despite their technical illegality. From this date trade unionism was tolerated in France, though it did not receive full legal recognition until Waldeck-Rousseau's law of associations in 1884.

During the early years of the Third Republic, while the atrocities of the Commune were still fresh in the public memory, every form of working-class activity was under a cloud. Trade unionism was no exception. Many unions were dissolved, others declined in membership, and there was even danger that the whole movement would collapse. From this fate it was rescued by the efforts of a republican journalist, Barbaret. Barbaret was a believer in the substantial identity of interest of master and workman, and he laboured to re-create a pacific type of trade unionism in France. Encouraged by the government, he resuscitated the dying unions and directed their activities into peaceful channels. He was so far successful that in 1876 a trade union congress assembled at Paris and adopted a mild reformist programme. But with the return of the exiles of the Commune, the leadership of the movement passed out of his hands. In 1879 the congress surrendered to the socialists, adopted a Marxian programme and assumed the title of the socialist labour congress. The moderates withdrew and French trade unionism proceeded to form a close alliance with the political socialist party. So far as the industrial labour movement was concerned, the alliance was a mistake. The quarrels among the different schools of political socialists reacted on the trade unions and weakened their influence. Few practical successes were achieved by French trade unionism in the 'eighties, and on the whole the movement tended to lose ground. The inevitable result was a reaction against political alliances and connections which were deemed to be detrimental to the best interests of trade unionism, and under the influence of this sentiment, the French industrial and political labour movements gradually parted company. One sign of the new tendencies was the foundation of *bourses du travail.* The *bourse du travail* is a specifically French institution to which there is nothing exactly corresponding in England. It may be roughly described as a combination of a labour exchange and a trades council. The *bourse* is housed in a building to the upkeep of which the municipality generally makes a contribution, and there the local trade unions have their headquarters and hold their meetings. There also is an office or offices where unemployed workmen can be put in touch with employers. The activities of the *bourse* cover a wide field. It acts as a friendly society, supplies trade unionists with educational facilities in the shape of newspapers, reading-rooms and classes, propagates trade union principles by meetings and demonstrations, and actively supports workmen on strike. Generally speaking, it devotes itself to the more specifically *local* needs and interests of trade unionists. The *bourse* is emphatically an industrial, not a political, organization. It takes no share in party politics and imposes no political test on its members or officials. The first *bourse* was founded at Paris in 1887, and before the end of the century there were nearly a hundred of them in existence. A federation was formed in 1892, which had for its secretary, a young bourgeois, Pelloutier by name, who had drifted through republicanism and Marxism into anarchism. Pelloutier's political creed is a sufficient index of the freedom of political opinion which is tolerated in the *bourses*.

Meanwhile a movement towards federation had also appeared among the trade unions. It resulted in the formation of the National Federation of Syndicates in 1886, an organization which was dominated at first by the Marxian followers of Guesde. But syndicalist ideas began gradually to gain a hold over the minds of French trade unionists, and the congress of 1888 adopted a resolution in favour of the general strike. The decision led to the secession of the Guesdists. Ultimately the National Federation was dissolved, and its place was taken in 1895 by the famous labour organization, the Confédération Générale du Travail. The C.G.T. stood unreservedly for industrial as opposed to political action. Its leaders despised party politics and parliamentary methods. They advocated the general strike, accompanied by sabotage, and looked forward to a time when the chief industries of France would be run in the interests of the workers by the trade unions themselves. The similarity of aim between the C.G.T. and the *Fédération des Bourses* made union only a question of time. It was accomplished, after one or two unsuccessful attempts, in 1902. The enlarged organization, however, retained the name of the C.G.T.

During the opening years of the twentieth century the French labour movement, under the influence of the syndicalists, committed itself to a drastic revolutionary policy. The English method of achieving small gains by local strikes was deliberately repudiated. 'All or nothing' became the motto of French trade unionism. The energies of the movement were to be saved up for one decisive blow which would shatter the existing organization and leave the ground clear for the construction of a better social order. What shape the new industrial system was to take was a question which the average syndicalist seldom troubled to ask himself. It was enough for him that he knew the first step to be taken, and that step was a universal cessation of work, 'the strike of folded arms', which would infallibly bring the employers to their knees. For more than a dozen years before the war the idea of a general strike dominated the minds of French trade unionists. As each May Day came round the threat of a general stoppage of work was renewed. But it never came within measurable distance of realization. The C.G.T. showed that it could provoke an extensive series of local strikes, but a general strike was beyond its power. Its most successful year was 1906, when nearly half a million workmen laid down their tools, and the terrified Parisian bourgeoisie shut themselves up in their houses and prepared for a siege.[1] But against this partial success must be reckoned a number of reverses which the C.G.T. sustained at the hands of the government. In 1909 a post office strike was brought to an end by the introduction of soldiers to do the work, and in the following year the ex-socialist Briand broke a strike on the Northern Railway by calling up the strikers as reservists. In face of the furious opposition both of the C.G.T. and of the socialist party in the Chambers, the government was able to make good its contention that State employees should not enjoy the right to strike.

In the war which it attempted to wage on society during these years, the C.G.T. was on the whole definitely worsted. The forces on the side of order proved stronger than was suspected. In its large peasant population and influential bourgeois class, French society possessed elements of stability which enabled it to repel with ease the ill-organized and badly-directed onslaughts of the C.G.T. Despite its history, France does not provide a congenial soil for revolutionary movements. The classes with conservative interests and instincts are too numerous and powerful. Yet revolutionary action has an invincible attraction for the Latin mind and holds forth delusive promise of success in a country where more than once an energetic minority has been able to impose its will on an inert sluggish majority. Nevertheless, France has not yet seen, nor is she likely soon to see, a revolution carried through in opposition to the wishes of her propertied classes.

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[1] For an amusing account of the state of feeling in Paris at this time, see Bernard Shaw's Introduction to the *Fabian Essays*, pp. vii–viii.

After the war the C.G.T., with a greatly augmented membership, put its revolutionary policy once more to the test. A general strike was declared in 1920, but with as little success as on previous occasions. The C.G.T. suffered heavily in prestige from this failure and its membership of 2 millions declined to about half. More serious consequences followed when the government decided to institute a prosecution against the confederation for breaches of the law of 1884. The ground of the accusation was that the C.G.T. had fomented 'political' strikes, whereas the law of 1884 confined syndicates to industrial action only. As the result of an adverse verdict, the C.G.T. was dissolved and fines imposed on the leaders. Shortly afterwards the organization was revived. It proceeded to purge itself of its extreme elements, forswore its revolutionary past and adopted a moderate reformist programme. The expelled extremists formed a smaller rival organization, the Confédération Générale du Travail Unitaire (C.G.T.U.), which affiliated to the Moscow International.

One or two special features of French trade unionism deserve to be noted. The majority of French unions are small in numbers and weak financially. The average membership is little over 200, and subscriptions are low and paid irregularly. The French workman is not fond of subscriptions. As has been said, he would rather support a resolution by raising his hand above his head than by putting it into his pocket. The general weakness of the unions explains the important part played by federation in the French labour movement, and also the tendency to favour revolutionary methods which will produce quick results by a concentrated effort. Conditions are not favourable for the pursuit of policies which require time to bear fruit. Another element of weakness in the French unions is the small proportion of the working-class enrolled in them, a proportion much smaller than in either Britain or Germany. Indeed the French unions are often represented as merely *cadres* round which the remainder of the workers can rally in time of emergency. For these and other reasons, trade unionism in France has a more meagre record of practical achievement than in almost any other country.

Trade Unionism in Germany

Germany, which did not, properly speaking, become an industrialized country till the last quarter of the nineteenth century, was slow in developing a trade union movement. The earliest combinations of workmen appeared in the printing trade where machinery was first used on a large scale and where the division between employers and employed was more pronounced than in other industries. There was a Printers' Union in 1848. But this was an anticipation. German trade unionism as a general movement dates from the 'sixties. Prior to this period workmen's combinations were illegal in all the German states. But Napoleon III's relaxation of the laws against French trade unionism reacted on public opinion across the Rhine and led indirectly to the important statute of 1869 which granted workmen with certain exceptions the right to combine. Agricultural labourers, seamen and domestic servants were excluded from the benefits of this Act, while in the case of other workers, their freedom was to a great extent nullified by the reactionary laws against public meetings and associations which prevailed in most states of the Empire. Trade unionism continued to function in this unsatisfactory condition of the law until the Revolution of 1918, after which the right to combine was conceded to all workers without distinction, and the regulations dealing with intimidation and picketing were very much relaxed.

The connection between trade unionism and politics has always been much closer in Germany than in other countries, and since their inception, German trade unions have been divided according to their political affiliations into three well-defined groups. These are: (*a*) The Free or Socialist Unions (Gewerkschaften), (*b*) the Liberal or Democratic Unions (Gewerkvereine), and (*c*) the Christian Unions (Christliche Gewerkvereine).

(*a*) The socialist unions have always been the largest and most powerful trade union group. The earliest of them were founded in the 'sixties through the efforts of Schweitzer, who had succeeded Lassalle in the leadership of the German Working Men's Association. At a party conference in 1868, Schweitzer proposed that the Association should directly undertake the formation of workmen's unions as adjuncts to the party organization. The suggestion was not well received. The northern socialists, under Lassalle's influence, had become firm believers in the iron law of wages and placed small faith in the ability of trade unions to improve the condition of the worker. But Schweitzer persevered, and called, on his own initiative, a conference at Berlin, which approved of his plan. Thereafter nine unions were actually founded and formed into a federation with 35,000 members. The new organization had a stormy and unfortunate career. It found itself exposed to attacks from two sides, from the police, who harassed it with prosecutions, and from the political socialists, who lost no opportunity of discrediting it in the eyes of the workers. In 1871 the membership sank to 4,000, and three years later the federation was dissolved, though some of the constituent unions managed to maintain a precarious existence. Meanwhile amongst the southern socialists, a similar movement had developed, unopposed in this instance by the political chiefs. Bebel and others were active in founding unions, and a southern federation was established with 11,000 members. But in face of the hostility of the authorities, the federation was forced to dissolve, leaving the member unions isolated and helpless.

The fusion of the two wings of the socialist party in the 'seventies gave a momentary stimulus to the trade union movement, and in 1878 there were twenty-nine unions in existence with a membership of 58,000. This slight progress was interrupted by the passage of the anti-socialist law (*v.* p. 132). The socialist unions were not avowedly political associations, nor did they impose any political test on their members, but they were closely connected with the socialist party, and the authorities did not hesitate to set the law in motion against them. Between 1878 and 1888 over a hundred unions were dissolved. But by various devices, the trade union leaders managed to preserve their organizations intact, and the movement emerged from this trying period with enhanced prestige and an augmented membership. In 1890 there were fifty unions with over 300,000 members. Opportunity was taken, on the withdrawal of the anti-socialist law, to unite the socialist unions into a federation. There had been no organization of this kind since the two older federations which had come to grief during the 'seventies. The 'nineties on the whole were not a prosperous period for German trade unionism, chiefly owing to trade depression, but with the dawn of the new century, the tide turned, and the membership of the socialist unions rapidly increased. In 1913 it reached a total of 2½ millions.

(*b*) The liberal unions date likewise from the 'sixties. They were mainly the creation of two middle-class liberals, Hirsch and Dunker, who had made a special study of contemporary trade unionism in England, then at its pacific stage. They wished to introduce a movement with similar peaceful tendencies into Germany. The unions which they founded acted on the assumption that no fundamental divergence of interest existed between masters and workmen, and they pursued a conciliatory policy, discouraging strikes and relying for the settlement of disputes on the method of friendly negotiations. Hirsch and Dunker were strong believers in the virtues of thrift and self-help, and all the liberal unions had elaborate schemes of sick and unemployment benefit. The first union of the kind was formed in 1868 among the engineers and metal-workers. In the following year four more came into existence, and a federation was formed. Partly to advertise itself, the new organization made itself responsible for a strike among the miners of the Waldenburg in Siberia. The strike was a complete failure despite the support given to the miners at Hirsch's request by prominent members of the liberal party, and this reverse seriously damaged the prestige of the liberal unions. They recovered somewhat during the period of the anti-socialist law when their chief rivals, the socialist unions, were suffering from the persecution of the government, but they declined again in the 'nineties. Bad trade and the renewed competition of the socialist unions are largely accountable for this decline, but something also must be attributed to the institution of a State system of social insurance (*v.* pp. 243–9) which made the voluntary schemes promoted by the liberal unions less attractive to the worker. Just before the war their membership had shrunk to 100,000, recruited chiefly from the engineering and other highly-skilled trades. They were decidedly the weakest of the three trade union groups.

(*c*) The Christian unions were the outcome of the socialist movement promoted in the 'seventies by Bishop Ketteler. They were formed to provide Catholic working men with industrial organizations of their own and thus to save them from the injury to their faith and morals which might result from association with anti-clerical liberals or socialists. In regard to industrial relationships, the standpoint of the Christian unions was very similar to that of the liberals. They accepted the existing organization of society, refused to admit any fundamental antagonism between masters and men, and followed a peaceful industrial policy. But with the progress of time, many of the Christian unions became more aggressive than their founders had intended them to be. They organized strikes, and did not hesitate in case of emergency to ally themselves with the godless socialist unions. Indeed, in regard to industrial action, the distinction between the socialist and the Christian unions was tending to disappear in the years before the war. In point of numbers, the Christian unions have always ranked second to the socialist group, though a long way behind it. In 1913 their membership was roughly 350,000, drawn chiefly from the Catholic parts of Germany.

Two special features of German trade unionism before the war are worthy of mention. The first is the extent to which industrial unionism had made progress. Whereas in 1912, 3 million English trade unionists were enrolled in over 1,000 unions, the trade unions of Germany, with roughly an equal membership, numbered only 400. The tendency towards concentration was most noticeable amongst the socialist unions. With their 2½ million members, they numbered only forty-seven, and never at any time had they exceeded sixty-six. Amongst the larger unions may be mentioned the metal-workers with 550,000 members and the builders with 326,000. In addition, there were at least five other unions, each of which had a membership of 100,000. All these associations were based on the industry, not on the craft. The progress of industrial unionism in Germany is partly explained by the capacity of the German worker for organization and his readiness to submit to discipline, both fruits of citizenship in a bureaucratic and military state, and partly to the necessity of presenting a united front to powerful associations of employers, banded together in cartells. Another partial explanation is to be found in the class consciousness and class solidarity which the close connection with the Social Democratic Party has helped to produce among German trade unionists.

The second noteworthy feature in pre-war trade unionism in Germany was the slow progress made by the method of collective bargaining, that is, by the method of concluding industrial treaties between masters and men, which fix wages and conditions of employment over long periods. In this particular, the German trade union movement lagged far behind that of England, though in advance of it in certain other respects. Two circumstances were mainly responsible for this result ; on the one hand, the disinclination of German employers, especially that section of them united in cartells, to recognize or negotiate with workmen's combinations ; and on the other, the teaching of the doctrinaire Marxians concerning the futility of trade union action. Just before the war the influence of both these factors had considerably weakened. The progress of ‘revisionism’ had helped to tone down the criticism of trade unions from the socialist side, and the attitude of the employing class had become a little less uncompromising. These changes were reflected in the growing number of collective wage-agreements which governed German industry. In 1913 the Imperial Statistical Office recorded over 10,000 agreements of this kind, affecting 1¼ million workers.

The Revolution of 1918 gave German trade unionism an entirely new and almost a privileged position in the State. By an order of the revolutionary government issued in December, 1918, trade unions were recognized as the accredited representatives of the workers, and collective agreements made by them with employers were given legal force. This important concession to labour was accompanied by others, notably by the grant of a universal eight hours' day and by the institution of works councils in all industrial establishments.[1] The works councils, which seemed likely at one time to displace the trade unions as organs of the working-class, were in the end definitely subordinated to them. These and other successes added greatly to the prestige of the trade unions and enabled them to increase their membership. This increase was very considerable, especially amongst the class of unskilled labourers. In 1920 the socialist unions had 8 million members, the Christian unions 1 million, and the liberal unions ¼ million. To these there now fell to be added a fourth group of communist unions with a membership of about a quarter of a million. Since 1920 these numbers have fallen, in each case, to about half. But the influence of the unions has not declined in the same proportion. They still hold an assured position in the State. Politically, they are one of the bulwarks of the Republic, as was strikingly shown during the Kapp putsch,[2] and industrially, they have convincingly demonstrated their ability to protect the interests of the worker, as is testified by the remarkable extension in the practice of collective bargaining which has taken place since the war. In 1922 the working conditions of 19 million employees were governed by collective trade agreements, negotiated by the unions.

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[1] *V.* Guillebaud, *The Works Council: A German Experiment in Industrial Democracy.*

[2] A royalist rising in 1920, which was brought to an end by a general strike of the unions.

CHAPTER X

THE CO-OPERATIVE MOVEMENT

IN its various forms the co-operative movement represents one of the most interesting and fruitful developments of modern times. Though in practice predominantly a working-class movement, it is not exclusively so, and in recent years the proportion of its middle-class adherents has significantly increased. As a social gospel, co-operation appeals to all classes. It seeks, not to obliterate class distinctions, but to temper and subdue class animosities. The co-operative ideal is a commonwealth where production is controlled by producers and consumers enrolled in voluntary associations; where profit, the chief source of the inequalities of the present system, is suppressed, and where the exploitation of one man by another is no longer possible. The means by which co-operators hope to attain their ends are almost as interesting and original as the ends themselves. Not revolutionary action nor State intervention, but the free initiative of individuals working through voluntary associations is the instrument on which they rely. Between co-operation and socialism there is naturally a certain resemblance, but the two programmes are based on quite distinct conceptions of social justice and proceed by radically different methods. 'Our system,' says an eloquent advocate of co-operation, 'presents this advantage, incomparable in our eyes, of sacrificing nothing of the liberty of the individual or of rights legitimately acquired. If in these circumstances we find ourselves fighting side by side with the socialists, I for one will not be alarmed. Even the most revolutionary socialists will cease to terrify us, once they have passed through the school of co-operation.'[1]

The chief forms of co-operation are these: (*a*) producers' co-operation; (*b*) consumers' co-operation; and (*c*) co-operative credit. It will be convenient to consider each of these in turn.

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[1] Professor Gide, *La Coopération*, p. 97.

(A) Producers' Co-operation

This was naturally the first branch of co-operation to develop. It seemed to present an easy and obvious remedy for one of the most visible and unfortunate results of the industrial revolution—the destruction of the economic independence of the working class. The scale on which industrial enterprises were now conducted demanded an amount of capital which the ordinary workman could never hope to accumulate. He had therefore no alternative but to hire himself out to an employer and submit to form a subordinate part of the economic organization. But supposing he combined his scanty resources with those of his fellows, this deficiency in capital might be made good. He might become a co-partner in a self-governing workshop, in which the labour and the capital would be supplied by the same person and the workmen would become their own masters. In this way he would both obtain relief from economic exploitation and enjoy the liberty which consists in obedience to constitutionally elected authorities. For though he would continue to obey a foreman or manager, these officers would be chosen by himself and his fellows. Industrial democracy would enable the workers to recover the independence of which capitalism had deprived them, and the standing feud between labour and capital would be healed. This solution of the social problem exercised a great fascination over many able minds in the middle-nineteenth century. It was paraded as an infallible remedy for labour unrest in the pages of Disraeli's *Sybil*, and J. S. Mill recommended it in soberer fashion in his *Principles of Political Economy*. A section of Mill's famous chapter on 'The Probable Futurity of the Labouring Classes' was devoted to a sympathetic study of co-operative production. Unfortunately, producers' co-operation did not realize the splendid future which its supporters prophesied for it. The course of events has clearly shown that the way of escape from our social difficulties does not lie along this path.

The original home of producers' co-operation was France. In the 'thirties and 'forties association was one of the catchwords of French social reformers and proposals for co-operative production figured prominently in nearly all the socialist philosophies of the period. The *phalanstère* of Fourier and the social workshop of Louis Blanc were different embodiments of the same idea. But it was a former disciple of Saint-Simon who was responsible for the first practical attempts to establish co-operative workshops in France. This was Buchez, whose social philosophy was coloured and influenced by a fervent belief in religion. Buchez's associations were based on ideas of compassion and of self-sacrifice—of compassion and pity for the exploited worker; of self-sacrifice on the part of those who sought to achieve his emancipation. In this self-sacrifice the workmen themselves were to share. Buchez wished the members of his associations to forgo all claim to a distribution of profits. These were to be kept intact and used to build up a fund from which other associations might be endowed. In this way the co-operative principle would gradually permeate society. But the sacrifice demanded was too great for men with undeveloped social sympathies. Buchez could never persuade his workmen to set aside more than a small proportion of their profits for the endowment of other associations. In the society of Paris jewellery workers, the most successful of the associations formed by him, the proportion earmarked for this purpose was only 15 per cent. Yet even this represented a considerable sacrifice and was in any case an acknowledgment that the association existed for a wider social purpose than the selfish interests of its individual members. The Jewellers' Association was founded in 1834 and had a prosperous career for nearly forty years, but it at last succumbed to the temptation which always lies in wait for successful producers' associations. In 1873 it closed its ranks to new-comers, thereby becoming a company of small masters, only distinguishable from other capitalist concerns by the fact that its owners had once been workmen.

The Revolution of 1848 ushered in a brief period of prosperity for producers' co-operation. This was only natural with Louis Blanc a member of the Government, and press and platform teeming with projects of association. The co-operative associations formed at this time drew their inspiration from Blanc rather than from Buchez. They professed no religious character and relied on the State, not on the self-sacrifice of their members, to supply them with the necessary capital. The earliest association was founded during the time of the Luxembourg Commission and under its auspices. One of the trades most badly hit by the Revolution was the Paris tailoring trade. As a measure of relief, the Luxembourg delegates formed a co-operative association of working tailors, installed it in the disused debtors' prison at Clichy and procured for it the contract to supply the National Guard with uniforms. Similar associations were formed to manufacture saddles for the cavalry and lace embroidery for the uniforms of the officers. All these associations, working on government orders, became very prosperous, especially the tailors, whose numbers at one time rose to 1,500. But during the June rising some tailors were captured fighting in the ranks of the rebels, and this was made an excuse for closing down the Clichy workshop.

Despite this high-handed action of the government, the reaction which followed the June rising did not affect the co-operative movement so seriously as might have been expected. The suppression of the Clichy workshop was not followed by other acts of hostility. On the contrary, the National Assembly developed an unexpected sympathy for co-operation and voted 3 million francs for the establishment of producers' associations. This decision was partly inspired by a genuine desire to promote social peace and provide the workmen with a counter-attraction to socialism. But it was also due to some extent to a cynical disbelief in the virtues of co-operation and a conviction that the system had only to be put to the test to reveal its unsuitableness as a form of industrial organization. 'It is not 3 millions that you should demand from us,' declared Thiers during the debate. 'It is 20 millions. I would grant it willingly. The price would not be too high to pay for a demonstration of the incapacity of association in the domain of industry.' The immediate results of the experiment went far to justify Thiers's pessimistic anticipation. About sixty associations were founded and endowed with State funds. By 1852 half of them were bankrupt, and in 1855 only sixteen survived, of which twelve were in financial difficulties. The failures were in most cases due to the inexperience and insubordination of the workmen, who showed themselves totally destitute of the mental and moral qualities necessary for a system of industrial self-government. But something must also be ascribed to the reactionary policy of the government during the early years of the Second Empire. The co-operative societies were suspected as nurseries of socialism, and many were dissolved by administrative decree or forced into bankruptcy by sudden demands for the repayment of their advances. A few succeeded by heroic deeds of self-sacrifice in weathering the storm. Among these, the association of working typographers gave a splendid example of devotion. To redeem their government loan of 80,000 francs, they sacrificed all their profits and a quarter of their wages. When the association was dissolved in 1858, it had cleared off all its debts, and had in hand a surplus from which it was able to grant bonuses of 8,000 to 10,000 francs to its members.

During the later years of the Empire, the hostility of the government relaxed to some extent, and the 'sixties witnessed another forward movement in producers' co-operation. This phase is interesting for two reasons. In the first place, co-operation gained the support of a number of liberal economists like Léon Say and Walras, who regarded it as a means of transforming the workman into a small capitalist and attaching him more firmly to the existing order. Secondly, an alliance, brief as it proved, was formed between producers' co-operation and co-operative credit. Two co-operative banks were founded to supply the producers' associations with capital, one under the auspices of the liberal economists, the other supported by some disciples of Buchez in alliance with a few republican politicians like Jules Simon and Garnier-Pagès. Both institutions came to grief after a few years. Their collapse was regrettable as marking the end of an interesting though premature experiment, but they had never rendered much aid to the producers' societies and the latter were little affected by their downfall.

At this time producers' co-operation was the official programme of the French Labour Movement. It occupied a prominent place amongst the proposals of Barbaret, and it was unanimously supported by the labour congress of 1878. But the capture of the congress by the Guesdists produced a sudden change of front. In 1879 the congress rejected co-operation as a social ideal in favour of Marxian collectivism, and this decision led to a complete rupture between the French co-operative and labour movements which is even yet not entirely healed.

Despite this reverse, French co-operation entered on another progressive phase in the 'eighties. Between 1880 and 1914 the number of producers' associations grew from 100 to 450, and in 1894 a 'Consultative Chamber' was formed to act as an organ of supervision for the movement as a whole. Much of this progress, it must be admitted, was due to generous assistance from the State and from private individuals. In 1878 a wealthy philanthropist, Rampal, left 1,400,000 francs to the city of Paris to be used in promoting producers' co-operation, and in 1894, Moigneu, a disciple of Fourier, established a co-operative bank with a capital of 500,000 francs. The State likewise granted handsome subsidies to the movement, and since 1915 the producers' associations have benefited from the 2 million francs which the Bank of France was compelled by law to set aside for credit societies. They have also for many years obtained preferential treatment in regard to government and municipal contracts. In 1921 there were 529 producers' associations in France with a membership of 20,000, and a turnover of 200 million francs. These figures indicate a slight degree of progress since 1914, but in view of the financial assistance which the movement receives from public and private sources, its growth does not appear very remarkable.

In England co-operative production was one of the elements of which Owenism and other early Socialist philosophies were composed, and some attempts were made to realize the idea in agriculture by the formation of communal villages. An interesting example is the Owenite community at Queenwood, founded in 1840. But little success attended these efforts. The first serious attempt to apply co-operative production to industry was made by the Christian Socialists in the 'fifties. Christian Socialism was primarily a reaction against the smug Victorian complacency which measured all progress in terms of material wealth. But it was also an earnest and courageous attempt to apply religious principles to the solution of social problems. The leaders of the movement were two clergymen, Maurice, divinity professor at King's College, London, and Kingsley, novelist and poet. Prominent amongst their supporters were Tom Hughes, Ludlow and Vansittart Neale, all barristers by profession. After the failure of the great Chartist demonstration in 1848, the Christian Socialists issued a paper, *Politics for the People*, through which they tried to instil patience and hope into the minds of the soured and disappointed workmen. But they were sadly at a loss for constructive proposals until Ludlow came back from Paris in 1849 with a glowing account of the co-operative workshops functioning in that city. Ludlow's enthusiasm converted his colleagues and they decided to make producers' co-operation the chief plank in their practical programme. Steps were taken to establish a Society for Promoting Working Men's Associations, and during the next few years small co-operative workshops of tailors, shoemakers and printers were set up in London. These associations had some resemblance to the workshops founded by Buchez. They were established independently of State aid, and through their founders, who were men of deep religious feeling, they had a semi-religious character. But the capital in this instance was furnished not by the workmen themselves but by the Society of Promoters or by wealthy sympathizers. Vansittart Neale in particular sacrificed nearly the whole of a splendid fortune in this way. Incidentally this was one reason for the want of success of the movement. The workmen, having provided none of the capital, cared little whether the workshops prospered or not.

The experiment proved in the end a complete failure. As in the contemporary movement in France, the workmen showed no capacity for industrial self-government. They quarrelled among themselves, disobeyed their foremen, and chose incapable or dishonest managers. In 1851 the Promoters found it necessary to withdraw the privilege of self-government from the workshops, and in the course of the next few years all without exception had to be closed down. The Christian Socialists were forced to admit that their experiment was premature, but their faith in producers' co-operation remained unbroken. 'Association,' wrote Kingsley in 1856, 'will be the next form of industrial development, I doubt not, for production; but it will require two generations of previous training, both in morality and drill, to make the workmen capable of it.'[1]

Nearly thirty years elapsed before producers' co-operation again showed signs of life in England. In 1884 the Labour Co-partnership Association was founded with the double object of establishing co-operative workshops and encouraging the adoption of profit-sharing by private firms. Through the efforts of the Association a large number of producers' societies were founded during the next forty years, but the mortality amongst them was heavy, and the average duration of life short. In 1925 the total number of co-operative workshops in England was 105 with about 12,000 employees. They are specially numerous in the leather and textile trades, and geographically their favourite home is the Midlands.[2]

The chief difficulty with which the producers' associations have had to contend is in regard to the marketing of their goods. All co-operative workshops are weaker on the commercial than on the industrial side. They can produce commodities but they cannot always sell them. It is for this reason that the consumers' societies have proved such a godsend to the producers' associations by providing them with a market for their goods. But this service has had to be paid for, and the price has been a heavy one, no less than the loss by the producers' associations of their independence. During the last thirty years consumers' co-operation has been gradually establishing an ascendancy over co-operative production. The fate of one of the oldest and most famous of English co-operative workshops provides an illustration of what is happening. In 1870 there was founded at Hebden Bridge, in Yorkshire, a co-operative fustian manufacturing society. Fustian-cutting at that time was a sweated trade, and the society did much to improve the conditions of the workers. It actually raised their wages 40 per cent. But at different times it had to seek assistance from the consumers' societies, until the latter came to hold the bulk of its share capital. The workers were therefore liable to be outvoted at shareholders' meetings, and this took place on an important occasion in 1919, when it was proposed to sell the concern to the English Co-operative Wholesale. Despite the opposition of the workmen, the proposal was carried, and the Hebden Bridge workshop became simply one of the many manufacturing establishments of the English Wholesale. This is only one example of the way in which consumers' co-operation is gradually bringing co-operative production under its control. The tendency is regretted by many co-operators of the old school, but it seems to be irresistible, and it must be regarded as a proof that consumers' co-operation represents a higher and more efficient form of economic organization than its rival. The conquest of the inferior type by the superior is always in the best interests of progress.

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[1] *Letters and Memories of Charles Kingsley*, Vol. I, p. 474. For an excellent account of the Christian Socialist Movement, see Raven's *Christian Socialism*. Kingsley's novels *Yeast* and *Alton Locke* should also be referred to.

[2] 'The Midlands district of Kettering, Desborough and Leicester seems to possess an atmosphere congenial to co-partnership.'—Fay, *Great Britain from Adam Smith to the Present Day*, p. 422.

Producers' co-operation in Germany presents no original features that call for special mention. According to official statistics the number of German producers' societies is over 300, but very many of these are really associations of small masters, where the spirit of co-operation is totally lacking and the use of the term ' co-operative society ' is a hollow pretence.[1]

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[1] No more than a brief reference can be made here to agricultural co-operation. The agricultural co-operative societies are associations of independent producers, not of wage-earners, and they aim at furthering the interests of their members within the limits of the existing system rather than at altering the present economic basis of society. They

(B) Consumers' Co-operation

As France is the home of co-operative production, so England is the birthplace of consumers' co-operation. The movement is generally dated from the 21st December, 1844, when the Rochdale Pioneers commenced operations in their tiny shop in Toad Lane. Not that this was the first instance of a consumers' society in England. Dr. King, a medical practitioner at Brighton, founded one in 1828, and there were even earlier examples than this.[1] But the Rochdale Pioneers were the first to make consumers' co-operation a practical success, and they are rightly regarded as the founders of the movement. The history of their enterprise is an amazing record of devotion and self-sacrifice on the part of a few uneducated working men. In 1843 the flannel weavers of Rochdale were passing through a period of acute distress, the result of low wages and unemployment. A meeting was called to consider the situation and was addressed by an Owenite missionary, Holyoake, subsequently the apostle and historian of co-operation in England. On Holyoake's advice, the distressed weavers decided to open a co-operative store. Capital for this purpose was laboriously raised by small weekly contributions of twopence and threepence, and by August, 1844, £28 had been collected. With this and a membership of 28, the society started business in the following December. 'The owd weavers' shop is open at last,' chorused the gamins of Rochdale when the shutters were taken down and the society's scanty stock of groceries exposed to view. The enterprise seemed a pitiful one and the local shopkeepers could not conceal their contempt for it. They prophesied a speedy end to the venture. But events belied these expectations. The society showed extraordinary vitality and achieved a measure of success which far exceeded the most sanguine hopes of its promoters. Within ten years the membership had increased from 28 to 1,400. The capital

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therefore stand in a class by themselves. Of the various types of agricultural associations, that for direct co-operative production is so rare as to be almost unknown. But societies for the provision of credit, for the supply of manures and agricultural equipment, and for the sale of farm produce, are common in nearly all European countries. The agricultural credit societies will be described in the section dealing with co-operative credit. For the others, the reader must be referred to standard works like Fay's *Co-operation at Home and Abroad*; or Gide's *Les Associations Coopératives Agricoles*.

[1] The first co-operative society appears to have been founded at Fenwick, near Kilmarnock, in 1769. The oldest existing store is the Lennox Victualling Society, established in 1812.

had increased to £11,000 and the turnover to £45,000. The society had extended the range of its operations and added meat and drapery goods to the articles sold. Later, clothes, shoes and clogs were manufactured for the use of the members. The Toad Lane shop was exchanged for larger premises and three branches were opened in different parts of the town. Amongst the reasons for this unexpected success, three are of special importance. First, the founders of the enterprise, though idealists, were men of sound judgment and shrewd practical insight. Most of them were Owenites and some of the items of the Owenite programme figured among their list of aims. The foundation of a socialist community, for example, was stated to be one of the objects of the Society. But the Pioneers had sense enough to discriminate between projects which were visionary and projects which were practical, and as a co-operative store offered the best prospect of immediate success, they decided to concentrate their energies on that object. Secondly, the new society adopted sensible methods of shopkeeping. It refused to give credit; it allowed full weight and it sold unadulterated goods, practices which were rare enough in the working-class shops of the period. Lastly, it divided its profits amongst the members in a new and original way. The dividend, as each member's share was called, was calculated not according to his capital, on which he received only a fixed rate of interest, but in proportion to the amount of his purchases. This ingenious arrangement gave the members every inducement to trade only with the store, and by providing the society with a regular clientèle, ensured its immediate success. It was the dividend system that laid the foundation of the future prosperity of English co-operation.[1]

The success of the Rochdale Pioneers gave an enormous stimulus to consumers' co-operation in England. Societies on the new model sprang up in all the industrial districts, and the movement became important enough to call for special legislation. In 1852 and 1862 statutes were passed, largely through the efforts of the Christian Socialists, which gave the co-operative associations legal recognition. They acquired the privilege of limited liability, as well as the right to hold one another's shares. This last concession, granted in 1862, prepared the way for a development for which the movement was fully ripe, namely, the formation of a wholesale distributing society. In 1863 the English Co-operative Wholesale was established at Manchester, and the Scottish Wholesale at Glasgow five years later. These organizations are federations of consumers' societies. The constituent societies supply the capital, on which they receive interest, and the profits are divided amongst them in proportion to their purchases; that is, the dividend system is repeated on a larger scale.

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[1] The claim of the Rochdale Pioneers to have discovered the dividend system has been disputed, and apparently not without justification. Quite a number of societies at home and abroad had practised the system before 1844. But it was the Rochdale Pioneers who made the idea a practical success, and there is therefore historical justice in the persistent tradition which makes them the originators of it.

The Wholesales were to begin with merely trading associations, supplying the retail societies with the goods they required and eliminating the middleman. For this purpose they established depots all over the world and even built a small fleet of merchant vessels. But before long they extended their activities to the field of production. In 1872 the English Wholesale opened a biscuit factory at Crumpsall, near Manchester, and this was the precursor of a long series of manufacturing establishments which to-day number over 100 and employ 80,000 workers. The articles produced include flour, butter, bacon, jam, tobacco, soap, hats, boots and furniture. The total value of the output is over £22 million per annum. The Scottish Wholesale has a group of well-equipped factories at Shieldhall, Glasgow, with an annual output of £6 million. The two Wholesales are also landowners on a large scale. In 1896 the English C.W.S. acquired an estate of 742 acres at Roden, and since then it has become the owner or renter of 40,000 acres of agricultural land in England. It is also the proprietor of an extensive colonial domain, including 80,000 acres of tea plantations in the East (this in conjunction with the Scottish C.W.S.) and 10,000 acres of palm-forest in West Africa. The Scottish Wholesale is the possessor of extensive cornlands in Canada. There seems indeed to be no department of economic activity into which co-operation cannot penetrate. Since 1867 there has been a Co-operative Insurance Society, and since 1876 a Co-operative Bank.

In 1925 the combined turnover of the two Wholesales was upwards of £75 million. Much of this gigantic growth has been due to the business ability and devoted self-sacrifice of the directors of the Wholesales, most of whom are working men, elected by the constituent societies. In this connection two names are worthy of special mention: J. T. Mitchell, chairman of the English C.W.S. (1874–95), and Sir William

Maxwell, chairman of the Scottish C.W.S. (1881–1908). Both these men, with abilities which would have won for them large rewards in the business world, were content to devote their lives to the co-operative movement for salaries totally disproportionate to the value of their services.[1]

In addition to the Wholesales, there is another great co-operative institution, the Co-operative Union. The Union was founded in 1869, and for nearly twenty years the Christian Socialist, Vansittart Neale, acted as its secretary. It also is a federation of societies, but it confines its activities to co-operative propaganda and educational work. The annual congress of the Union at Whitsuntide is the great event of the co-operative year. In addition, it publishes books and pamphlets, and organizes popular classes in subjects useful and interesting to co-operators.[2] In 1919 it established the nucleus of a co-operative college at Manchester. Unlike the Wholesales, the Union covers the whole of the British Isles and admits producers' as well as consumers' societies to membership. In 1927 the number of affiliated societies was 1,400 with a total membership of 5½ millions. There are about 200 societies unaffiliated to the Union.

The tendency of consumers' co-operation to absorb independent co-operative workshops has already been mentioned. The attitude of the movement to profit-sharing and co-partnership deserves also a brief notice. Among a section of co-operators with individualist leanings, co-partnership was regarded as the ideal. This was true of middle-class Christian Socialists like Vansittart Neale, who had become interested in the consumers' movement. They urged that co-operative employees should receive a share in the profits over and above anything they might obtain as members in the shape of dividend. They also demanded that the workers should obtain some control over the management of the business. These claims were resisted by Mitchell and most of the working-class leaders of co-operation. They argued that the dividends declared by co-operative societies were not divisions of profit but returns of overcharges to consumers, in which producers as such had no title to share. They also dwelt on the dangers to discipline and efficiency if employees were allowed a share in the management. On these grounds, the English Wholesale has consistently refused to admit its employees either to a share in the profits or to a partnership in the business. The Scottish Wholesale, however, under Maxwell's influence, adopted a less unyielding attitude. A combined scheme of profit-sharing and co-partnership was introduced among its employees in 1893, and though the profit-sharing scheme was dropped in 1915, the workers still receive a bonus in the form of shares in the business. But the voting rights attached to these shares are strictly limited.[1]

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[1] Mitchell, a Rochdale man, died worth £350. When questioned once why he was willing to work so hard for so little remuneration, he replied: 'I enjoy the esteem of my colleagues; I have great power; I have great faith in the co-operative ideal. These things satisfy me.'

[2] A special organization, The National Co-operative Publishing Society, is responsible for the publication of several newspapers and magazines connected with the movement, including the weekly *Co-operative News* and, since 1929, *Reynolds's Weekly Newspaper*.

Within recent years the attitude of English co-operators to politics has undergone an important change. The political and non-sectarian character of the Rochdale programme was one of its most prominent features, and this neutral attitude continued to be observed by the whole co-operative movement until the period of the war. There was sign of a new outlook in 1897, when a number of Scottish co-operators commenced an agitation for an independent co-operative party; but the agitation made little progress until the events of the war period, especially those connected with food control and war taxation, seemed to make it essential that co-operation should have representatives of its own in Parliament. In 1917, the Swansea Congress decided by an overwhelming majority in favour of direct parliamentary representation. Thereafter a number of co-operative candidates were run at ensuing parliamentary elections. One was elected in 1918 and six in 1923. Though nominally independent, the co-operative M.P.s acted and voted with the Labour Party, and four of them held office in the first Labour government. This was in one sense unfortunate since it destroyed all pretence of the group to form an independent party. In 1927 a still more significant step was taken. The Cheltenham Congress, by a narrow majority, decided to form a definite alliance with the Labour Party. So complete a departure from all the traditions of English Co-operation caused much heart-searching among co-operators of the older school. But the practical consequences of the decision have been negligible. The societies affiliated to the Union are not bound by the resolutions of the Congress which can only make recommendations or express opinions. And so far, the consumers' societies have shown little disposition to enter the field of politics, in support of either co-operative or labour candidates.

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[1] One vote is allowed for every 150 employees. This restriction became necessary after the workers had packed a meeting and secured the dismissal of an unpopular manager.

In France, during the greater part of the nineteenth century, the prevailing type of co-operative society was the producers' association and the progress of consumers' co-operation was slow and intermittent. The earliest recorded example of a store is the *Caisse du Pain*, established in 1832 at Guebwiller, Alsace, though according to some accounts, this was simply a truckshop founded by a benevolent employer. Better authenticated is the genuine co-operative character of the *Commerce Véridique*, founded by some Lyons silk weavers in 1835. This society has the honour of having anticipated the Rochdale Pioneers in the use of the dividend system.[1] But it collapsed after a short existence of three years, during which it suffered much from the hostility of the authorities and the active persecution of the local shopkeepers. Thereafter, until the 'eighties, consumers' co-operation languished, except for two brief spells of activity in the 'forties and 'sixties. In 1848 the general enthusiasm for co-operation led to the formation of a number of consumers' societies in Paris and Lyons, but the majority were ruthlessly suppressed by the imperial government after the *coup d'état*. At Lyons, Marshal Castellane, the governor, dissolved thirty-five societies in a single day and completely stifled a hopeful co-operative movement in that city. The next ten years are almost a blank in the history of French consumers' co-operation, but by the 'sixties the situation had become easier. The Second Empire had entered on its liberal phase and for reasons of policy the government began to regard co-operation with a benevolent eye. One result of the more favourable attitude was the passing of the important law of 1867 which gave co-operative societies an assured legal status. Help also came from another unexpected quarter. The liberal economists, in alliance with the republican opponents of the empire, took consumers' as well as producers' co-operation under their protection. At this time there were about eighty consumers' societies in France. But the movement was extremely feeble, and the individual societies led a precarious existence. They lacked capital and their directors lacked experience. The attitude of the government, like that of all despotisms, was capricious and uncertain,[1] and the collapse of the two co-operative banks founded at this time involved many retail societies in disaster. During the 'seventies the movement suffered from the distrust of all working-class activities, which the memory of the Commune kept alive in the minds of the governing classes, while the workers themselves gradually lost faith in co-operation and transferred their allegiance to Marxian socialism. The Labour Congress of 1878 declared that co-operation, whether of producers or of consumers, could never bring about the emancipation of the working-class. All these circumstances combined to obstruct the growth of the co-operative movement, and it was not till the 'eighties that it threw off its lethargy and entered on a new and, as it proved, a most fruitful phase in its history.

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[1] Only a quarter of the society's profits was distributed in proportion to purchases, the remainder being assigned to capital or expended for the collective benefit of the members.

The revival of the 'eighties was, it must be confessed, rather of an intellectual than of a material kind. It was associated with the rise of a new school of co-operators who gave to the principles of the Rochdale Pioneers a fresh and original application. The School is generally referred to as the School of Nîmes, from the fact that most of its members lived in or near that city. Its leaders were three members of the bourgeoisie, Boyve, Fabre and Gide. By an interesting coincidence, all three were Protestants, descendants of the heroic Camisards who from their fortresses in the Cevennes offered so resolute a resistance to the *Dragonnades* of Louis XIV. Boyve was a wealthy rentier deeply interested in the Protestant socialist movement and actively engaged in works of charity and religion. He was an admirer of the English Christian Socialists, and had made the acquaintance of Vansittart Neale, through whom he was led to take an interest in co-operation. Fabre was a small manufacturer at Uzès, not far from Nîmes, a man of somewhat eccentric character but a close student of the writings of Fourier. Gide was the thinker and the intellectual leader of the group. At this time he was professor of political economy at the University of Montpellier,[2] and had just published a textbook on economics, *Principes d'Economie Politique*, first published in 1883,[3] which subsequently went through more than twenty editions in French and was translated into twenty-seven languages. In his treatment of his subject, Gide separated himself from the prevailing school of liberal economists, by his keen interest in social problems and his more sympathetic attitude towards socialism, especially the socialism of the old French associationist school. A native of Uzès, he became a close friend of Fabre and later of Boyve. Through them he was led to study the subject of co-operation and soon became convinced of its great possibilities. His genius and powers of expression made him the intellectual leader of the new movement and from his hands the School of Nîmes received its philosophy and its programme.

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[1] The proposal to hold an international co-operative congress at Paris in connection with the Exhibition of 1867 had to be abandoned in view of the opposition of the authorities.

[2] Later he was made professor at Paris.

[3] English translation by Rowe, 1924.

This programme may be briefly described as the economic apotheosis of the consumer. What, said Gide, adapting the words of the Abbé Sieyès, has the consumer been hitherto? Nothing. What ought he to be? Everything. For two reasons: first, because consumption is the end and aim of the economic system, whereas production is only a means; second, because the interest of the consumer is identical with that of society as a whole, in contrast to the interest of the producer which tends to be anti-social. 'The merchants have an interest in selling dear, the agriculturists in keeping corn from being too abundant, the doctor in having plenty of patients, the workers themselves in making labour scarce, and the trade unions by their strikes often inconvenience the public. The consumer alone desires all commodities to be as abundant, cheap and good as possible, and that is precisely the interest of society.'[1] Gide agrees in one point with the liberal economists when they said, like Bastiat, that political economy must be treated from the point of view of the consumer. But he goes further and asserts that in the ideal society private interests must be subordinated to social, which involves the subjection of the producer to the consumer. How is this to be accomplished? By the gradual building up of a consumers' co-operative republic. This will be a slow and arduous process, but let us imagine that it has been accomplished, in order to see what results will follow. All the consumers of a country, or since every person is a consumer, the whole nation will be enrolled in one gigantic co-operative society, or preferably a federation of co-operative societies, which will control the whole field of production, including agriculture, commerce, and industry. Through its wholesale departments, the co-operative federation will grow the food and produce the manufactured goods required by its members, as is already done on a small scale, for example, by the English and Scottish C.W.S. Through the retail societies the goods will be distributed to the consumer. The following are the chief benefits which will be derived from the new social order. First, all unnecessary middlemen will be eliminated and the social parasites who prey on both producer and consumer under existing conditions will be got rid of. Secondly, production will be organized in a way that is not now possible. The co-operative societies will be able, as at present, to gauge with fair accuracy the demand of their members for different classes of goods, and thus a means will be provided of avoiding the periodic gluts of over-production, followed by spells of depression which are among the chief causes of unemployment to-day. To these, other advantages, equally important, will be added. The chief rivalries and antagonisms of the present system will be eliminated. First, the antagonism between buyer and seller. The co-operative society will fix a just price for its goods, including a fair reward for labour, and if necessary for capital but without any element of profit.[1] With the disappearance of profit will vanish the large fortunes of which it is the source, and another social antagonism will be resolved, the antagonism between rich and poor. Finally, the antagonism between employer and employed, the cause of most of the friction in the present system, will disappear, because these two will cease to be different persons. In the co-operative republic, every person, unless prevented by age or infirmity, will be a producer as well as a consumer. As a producer, he will be the employee of a co-operative society in the government of which he as a consumer has a voice. Thus the bitter feeling of being exploited for another's advantage will find no place in his mind, and industrial democracy will be realized in a form which will not interfere with the efficiency of production. The governing body of a co-operative manufacturing establishment will be not the employees, but the whole body of the consumers of whom the employees form a part. The narrow, selfish interests of the producer will thus be corrected by the wider social interests of the consumer. As a producer, the worker will be a servant; as a consumer, he will be a master. The interest of every individual will become identified with the interest of the community and co-operation will create, what has never before existed, a harmonious and united society.

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[1] Gide, *La Coopération*, p. 218.

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[1] By profit, co-operators mean, not the reward of capital or of business management, but the surplus due to a monopoly (complete or partial) or to a fortunate conjuncture of circumstances, which the present system allows the producer to retain at the consumer's expense.

It will be observed that in this theory the agent of social regeneration is the consumers' not the producers' co-operative society. Gide allows that there may be a place for producers' associations in certain branches of small-scale industry, but they must be definitely subordinated to the consumers' societies as in England. ' We do not wish a government of proletarian producers, any more than one of capitalists, a government of trade unions any more than one of trusts.' [1] The co-operative republic must be firmly established on the supremacy of the consumer, whose superiority over the producer is undeniable from every point of view. ' Producers are belligerents, and their reign has been one of competition and the struggle for existence. Consumers are men of peace and their reign will be one of union for life—perhaps it was specially for consumers that the gospel saying was uttered, " Blessed are the peacemakers, for they shall inherit the earth " ! ' [2]

It is obvious from this brief summary that the School of Nîmes has given a width and an amplitude to the idea of co-operation which it did not possess in the minds of the Rochdale Pioneers. From a mere shopkeeping expedient, it has become a social doctrine. From a method of improving the circumstances of one class, it has become a means of transforming the conditions of all classes. From a measure of social reform, it has developed into a philosophy of social emancipation. France was not the original home of consumers' co-operation, but French thinkers have given one more illustration of their power to transplant an idea, invest it with a universal quality and send it forth anew to the conquest of the world. If co-operation is entitled to rank high among the social philosophies of the nineteenth century, if it is recognized as containing a vigorous principle of life and as giving promise of a brilliant future, this is due to the small band of intellectuals who founded the School of Nîmes, and above all to the great speculative thinker among them, Charles Gide.

The later history of French co-operation is bound up with the fortunes of the School of Nîmes. Its members first occupied themselves in founding co-operative societies in the town of Nîmes itself, such as the *Renaissance* and the *Abeille*, but they soon felt the necessity of a wider stage to work upon and set themselves to weld the scattered French societies into a federation on the English model. Through their efforts, a congress representing eighty-five societies met at Paris in 1885, and a federation was formed, known later as the *Union Coopérative.* The annual congresses of the Union provided the new school with admirable opportunities of propaganda. In a series of eloquent speeches,[1] Gide sketched with a firm hand the outlines of the new social doctrine. These manifestos met with a mixed reception; on the one hand, they incurred the condemnation of the liberal economists, who immediately withdrew their patronage from the co-operative movement. Strong objection was taken to a statement by Gide,[2] that co-operation aimed at the transformation of the wage-system. 'The wage-system,' declared Leroy Beaulieu, writing magisterially in the *Économiste Français*, 'is the highest form of contract. Its suppression appears to be neither practicable nor desirable. There are certain fixed points from which humanity does not depart.' In the socialist camp the new social theory met with a no less hostile reception. This was not altogether surprising, because Gide and his friends were inclined rather aggressively to emphasize the distinction between their doctrines and those of socialism. But in this instance the controversy had unfortunate practical results. It produced a rupture in the youthful *Union Coopérative.* A number of societies, mainly in the Paris district, seceded and formed in 1895 a rival federation known as the *Bourse des Coopératives.* The main point of dissension was the question of political neutrality. The 'Bourse' consisted of societies which subsidized the political socialist party, though they did not as a rule impose any political test on their members. The Union, on the other hand, adhered faithfully to the old Rochdale principle of neutrality, and refused to make itself the exclusive organ of any social class or political party. The quarrel continued until the eve of the war and did immeasurable harm to co-operation in France. The majority of consumers' societies made the controversy an excuse for remaining outside both federations, and the consolidation of the movement was delayed for many years. At last, through the intervention mainly of foreign co-operators, the schism was healed. In 1912 the two rival bodies amalgamated under the title of the National Federation of Consumers' Societies. The result was an acknowledged victory for the School of Nîmes. The reunion was founded not as usually happens in such cases, on a compromise, but on a complete surrender by the socialist co-operators of their demands. They unreservedly withdrew their main contention that co-operative societies should adhere to the socialist party and subscribe to the doctrine of the class war. The pact of unity indeed was an almost literal embodiment of the principles of the School of Nîmes. For this reason, many societies refused to come into the reunited body, but despite these abstentions, the National Federation has steadily increased the number of its affiliations, until in 1925 it represented 57 per cent. of French co-operators as compared with 29 per cent. in 1913.

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[1] Gide, *L'École de Nîmes*, p. 112.

[2] Gide, *La Coopération*, pp. 237–8.

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[1] Reprinted in Gide, *La Coopération.*

[2] In his address to the Lyons Co-operative Congress in 1886, reprinted in *La Coopération*, pp. 1–41.

The School of Nîmes may justly claim to have established its ascendancy over the French co-operative movement, and since the war it has given further evidence of its power to proselytize. In 1921, in response to a circular, 200 French professors announced their adhesion to its principles. This interesting fact reveals the hold which co-operation has asserted over the minds of the cultivated classes in France, a result mainly of the high talents of its advocates and the breadth and philosophical character of their views. The National Federation has appropriately recognized the support which the movement has received in academic circles by founding a chair of co-operation in the University of Paris, to which Gide was appointed in 1921.

In contrast with its stirring intellectual life, the French co-operative movement has only meagre results to show in the way of material progress. The number of consumers' societies is fairly large, about 4,500, but the average membership is small, less than 600. The turnover of the retail societies is also insignificant, amounting to little more than £15 million a year, compared with £250 million in the case of the English societies. This is partly explained by the fact that so many French societies confine themselves to one or two lines. Some of them, for example, exist only for the sale of bread. In recent years attempts have been made to remedy the weakness of the individual societies by the formation of regional unions throughout France. The central organization, the National Federation, includes as yet only about half the consumers' societies. There is a French Wholesale (the *Magasin de Gros*) which does a small amount of manufacturing. But its dozen tiny factories employ less than 1,000 workers, and its total turnover is only £10 millions a year, of which £250,000 represents the value of its manufactured goods. In 1922 the National Federation founded a Co-operative Bank.

Obviously, from the material point of view, French co-operation has much leeway to make up, but there is ground for hope in the outstanding progress which has been made since the war. Between 1913 and 1920 the membership of French co-operative societies tripled and their turnover doubled. The movement therefore may yet come to hold a material position worthy in some degree of the invaluable services it has rendered to the development of co-operative thought.

The German consumers' co-operative movement is mainly a growth of the last forty years. It is true that there are examples of co-operative stores at an earlier date, but until the 'nineties the movement did not make much headway. The pioneer society was the Ermuntering (Encouragement), founded at Chemnitz in Saxony in 1845. For this society, it is claimed that it made an independent discovery of the dividend system. About the same time the Berlin philanthropist, Liedke, founded a number of consumers' societies in Berlin, which were copied in other German towns. The movement owed much in this early period to the Würtemberg professor, Huber, a man of deep religious feeling, a conservative in politics, but keenly interested in social problems. In 1847 he paid a visit to England and returned with a knowledge of the Rochdale system, which he did much to popularize in Germany.

Consumers' co-operation, however, made little progress at this time. The influence of Schulze-Delitzsch and other bourgeois co-operators was strong enough to divert the co-operative movement towards the formation of people's banks and credit associations. The small group of consumers' societies had to be content to form a subordinate branch of the Federation of Credit Associations. The Anti-Socialist Law had the effect of increasing the membership of the consumers' societies in the 'eighties and of making them more aggressive. Many ardent socialists found in co-operation a field for the energies which were denied an outlet in politics. Then just at the close of the century, new forces were set in motion within the co-operative movement by the foundation of the famous Hamburg Society, *Produktion*. This society was established in 1899 as the result of a dockers' strike at the port. It was strongly proletarian in character, and, as its name implies, its economic programme was of an ambitious kind. Not merely the distribution of goods but their production figured amongst its aims, and co-operation was regarded as a means of transforming the economic basis of society. Such tendencies created alarm among the small traders and industrialists, who were in the majority in the credit associations, and produced friction within the Federation. In 1902 this want of harmony resulted in a split. At the Kreuznach Congress about 100 consumers' societies seceded or were expelled from the Credit Federation and formed an independent Union with its headquarters at Hamburg. Despite the circumstances attending its foundation, the new body professed neutrality in regard to politics, and has consistently maintained this attitude. In 1925 the Hamburg Union embraced 1,275 societies with a collective membership of 3½ millions. But it is not the only consumers' federation in Germany. There is also a Union of Catholic co-operative societies, comprising about 400 associations with half a million members.

As early as 1869 a Wholesale Society had been established at Mannheim, but it was closed down six years later for lack of support. The attempt was renewed with greater success in 1893. The new Wholesale benefited from the vitality which the foundation of the Hamburg *Produktion* infused into the consumers' movement. In 1899 its supervising board paid a visit to England and came back full of enthusiasm for the English C.W.S. and its methods. A period of expansion and reconstruction followed. Depots were established all over Germany and numerous factories were erected. In 1924 the Wholesale employed about 3,500 workers and had a turnover of 168 million gold marks, of which 26 million represented the value of its own productions.

Regarding the individual German societies, a very striking feature is their extreme youth. Few of them can date their origin earlier than 1890. On the other hand, their membership is much larger than in most other European countries. Germany indeed contains some of the biggest consumers' societies in the world. The Hamburg *Produktion*, for example, has a membership of 130,000, and there are quite a number of societies with over 100,000 members. This unusual growth has created difficulties in regard to administration and government. In the larger societies the general members' meeting has become unsuitable as a governing body, and by a law of 1922 all societies with a membership of 50,000 and over are obliged to introduce a representative system, by which the general meeting is turned into a council of delegates elected by the members. Smaller societies may adopt this reform if they choose. It is one which deserves to be copied by co-operators in other countries as well. Of all forms of government, government by public meeting has least to recommend it.

Despite their great size, the turnover of the German societies is not very large. This is chiefly due to their lack of enterprise in opening up new lines of business. Most of them confine themselves to the sale of groceries, and they have shown in particular a surprising reluctance to open butcher shops.[1]

The German consumers' co-operative movement ranks second in the world to that of Great Britain. Since the war it has made remarkable progress. In the ten years after 1914 the Hamburg Union doubled its membership. In Germany, with its high degree of industrialization and its large working-class population, the consumers' co-operative movement has clearly a great future before it.

(C) Co-operative Credit

It is to meet the needs of the agriculturist mainly that co-operative credit has come into existence. Agriculture is a waiting trade, 'the industry of the coming year'. The cultivator, especially the poorer cultivator, often requires assistance to keep him alive until his corn ripens or his crop is disposed of. It is useless for him to apply to the ordinary credit institutions, the commercial banks, firstly because what he wants is long-, not short-term credit, secondly because he has seldom any tangible security to offer. What the peasant requires is some means by which he can borrow on his *personal* security. It is this difficult problem which the co-operative credit movement has solved.

The origins of co-operative credit must be sought for in Germany. As early as the eighteenth century the Prussian government had instituted mutual credit associations called *Landschaften*. The *Landschaften* consisted only of landowners and could therefore do little to help the actual cultivator. In times of stress the peasant had no resource but to apply to the village usurer. Usury is the scourge of all impoverished agricultural communities. By an infallible process the money-lender gradually strips the peasant of all his property and turns him into a hopeless drudge, cultivating his land for the benefit of another and receiving in return only a bare pittance. It was to counteract these awful evils of usury that the co-operative credit movement was first set on foot.

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[1] Cassau, *The Consumers' Co-operative Movement in Germany*, pp. 64–69.

The name chiefly associated with the origins of the movement is that of Frederick Raiffeisen, an ex-soldier, who had been compelled by an affection of the eyes to quit the army and enter the public service. During the famine years 1846–7 Raiffeisen was burgomaster [1] of a small group of villages in the Rhineland, and was deeply impressed by the ravages wrought amongst the peasantry during that terrible period by the usurers. He applied his mind to find a remedy and concluded that the establishment of village banks, modelled on the *Landschaften*, but designed for the benefit of the poor cultivators, might succeed in rescuing the peasant from the toils of the moneylenders. In 1849 he founded the first bank of the kind at Flammerfeld and endowed it with a personal gift of £300. The new institution did not spread rapidly. A second bank was not founded until 1854, a third in 1858 and a fourth in 1863; in all four banks in twenty years. But in the 'seventies and 'eighties, with the coming of agricultural depression, the movement took on a great extension and village banks multiplied rapidly. To-day, it is estimated that there are about 15,000 Raiffeisen banks in Germany, and about 100,000 throughout the world.

The chief characteristics of Raiffeisen's novel credit institution can be briefly summarized:

1. First comes mutual solidarity. Each member assumes unlimited liability for all the debts of the association. This rule was first adopted because no other was permitted in the existing state of German law, but it was maintained even after the legal recognition of limited liability, and has enormously strengthened the credit of the Raiffeisen banks. It enables them to borrow on very easy terms.

2. Partly as a consequence of the foregoing rule, members are only admitted after a strict examination into their financial circumstances and their moral character. This latter part was insisted on strongly by Raiffeisen. He was a man of deep religious convictions and he wished his banks to be agents not merely of economic amelioration, but of moral improvement as well. The strict supervision which the banks exercise over the conduct of their members has produced in most cases very happy results, and has led to a general rise in the standard of morals amongst the German peasantry. Numerous cases are

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[1] In Germany the burgomaster or mayor is a paid full-time official.

quoted of drunken, debauched peasants reforming their lives because in no other way could they secure admittance to the village bank.

3. The bank operates over a small area and comprises a limited membership. 'One village, one bank' is the recognized rule. This is to facilitate the moral supervision which the members exercise over one another.

4. No large subscriptions are demanded, only an entry fee of trifling amount. Originally the Raiffeisen banks did not issue shares, but the legislature compelled them to depart from this rule. Now they do issue shares but of insignificant denomination, so that no one is debarred by want of means from obtaining admission to a village bank.

5. There is no distribution of profits. This was the original rule, but by the legislation already mentioned, the State insisted on a proportion of the profits being divided. The members, however, vote away all their profits to a reserve fund, to which any surplus in the hands of the bank is also added. When this fund becomes large enough, it is used to supply members with gratuitous loans.

6. All the officials are honorary and unpaid except the accountant (*Rechner*), who receives a small salary.

7. The form of government is democratic. The co-operative principle of one person, one vote, is adopted, the wealthier members enjoying no special or privileged position, though naturally they exert a certain moral authority in the councils of the bank.

The typical Raiffeisen bank operates in a small village of about 1,000 inhabitants, and has a membership of from 30 to 50. Its loan fund is built up out of its individual profits, and generally largely supplemented by deposits from private investors. The credit of the banks is exceptionally good, and they are never in want of capital. Each application for a loan is carefully scrutinized by the bank committee, and the applicant, who must be a member, has to explain the purpose for which he desires the advance and show some likelihood of his being able to repay it at the stipulated date. Hitherto, the banks have not lent gratuitously, but the rate of interest charged is moderate and the loans are granted for long periods.

In 1877 Raiffeisen instituted a federation of village banks with a central bank at Neuwied. The central bank exists to supply the village banks with capital. It stands between them and the money-market, just as they stand between the peasant borrower and the individual capitalist. The central bank is organized as a joint-stock company with limited liability. But it is not a pure profit-making concern. Dividends are limited to 3½ per cent. and any surplus above this rate is compulsorily carried to a reserve fund.

In 1880 Haas, a follower of Raiffeisen, instituted a slightly different type of credit association, which issued large shares, made distributions of profits and did not insist on unlimited liability. In 1907 the Haas banks came into the Raiffeisen federation, though preserving a separate organization.[1] Almost contemporaneously with the establishment of village banks by Raiffeisen, a somewhat similar type of credit institution was founded by a liberal lawyer and politician, Schulze-Delitzsch.[2] Schulze held a number of judicial posts under the Prussian government and sat in the National Assembly of 1848, as well as in the Prussian Landtag and the Imperial legislature. An adherent of the Manchester School and an admirer of the French economist Bastiat, he was selected by Lassalle as the object of an extremely damaging though somewhat unfair attack in his pamphlet *Herr Bastiat–Schulze-Delitzsch*. Schulze certainly deserved better treatment than he received at the hands of his brilliant adversary. As an individualist and a believer in self-help, he was chiefly interested in protecting the small independent producer against the encroachments of large-scale industry. His people's banks, indeed, were better adapted to the needs of the town artisan than to that of the peasant. But they were by no means confined to urban areas, and to-day they are almost as numerous throughout the countryside as the Raiffeisen banks. They resemble the latter in their democratic organization and their insistence on the rule of unlimited liability. But they differ from them in other points. They exercise no moral supervision over their members; their loans are for short not long periods; they impose no limit on their membership; they issue shares, sometimes of large denominations; and they distribute dividends. Schulze intended his societies to stimulate thrift among the poorer classes, and to act as savings-banks in addition to supplying credit. The shares, though large, are payable in small instalments which places them within reach of the poorest, and the high dividends distributed are intended as an additional inducement to the members to save.

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[1] In 1913 the Haas organization partially collapsed, inflicting a severe blow on the whole credit movement.

[2] His name was simply Schulze, an exceedingly common name in Germany. To distinguish him from the many other Schulzes, the name of his birthplace was added.

In 1859 a Central Committee of Schulze banks was founded at Weimar, which developed in 1864 into a General Federation of Co-operative Societies. The Federation at first included all types of co-operation, but a separate organization was set up in 1883 for the rural banks, and in 1902, as already stated, the consumers' societies seceded.

Mutual credit associations are obviously of greatest benefit to the small agriculturist, and therefore it need cause no surprise that in England, a country of large farms, they are non-existent. In Ireland, however, with its peasant proprietors, the co-operative credit movement has made some progress in recent years.

In France, the first people's bank was founded at Mentone in 1882. It was based on the Schulze model, which had arrived in Southern France by way of Italy. The movement spread to Marseilles and found a fervent supporter in Eugène Rostand, father of the author of *Cyrano de Bergerac*. Through his efforts, a Federative Centre of Popular Credit was created, which served as a bond of connection between the different banks. The supporters of the Federation were mostly adherents of the orthodox political economy, distrustful of State intervention and strong believers in the virtues of individualism and self-help. In these respects, they were faithful followers of the Schulzean tradition, but they departed from it in one important particular by abandoning the principle of unlimited liability. It was feared that to insist on such a rule would scare away prospective members, especially those of the peasant class.

In 1893 a rival federation of Catholic credit societies was founded by Durand, a Lyons advocate. The Durand associations are most numerous in those districts which have remained loyal to the Church, such as Brittany, La Vendée and the departments of the Pyrenees.

Until the State came to its aid, co-operative credit made comparatively little progress in France, but in 1897 the movement received a handsome endowment from the public funds. As the price of the renewal of its charter, the Bank of France was compelled to grant the government a loan of 40 million francs without interest and to allow it a share in its annual profits. Both this capital sum and this annuity, which in 1924 amounted to 100 million francs, were placed at the disposal of the credit associations. The combined funds were at first far greater than the associations could use. But since 1921 there has been an unexpected increase in the demands and the State's endowment is now in danger of being exhausted. Originally, the subsidized societies, amply provided for by the bounty of the government, did little to attract funds from private investors. But now it has become necessary to supplement their capital from private sources. In 1923 the 5,000 subsidized societies had private deposits amounting to 223 million francs. The subsidized societies, it may be mentioned, far outnumber the independent associations of the older type, who continue to refuse assistance from the State. On this ground, the French co-operative credit movement can hardly be described as a healthy one, but on the other hand, it is an interesting example of what the creative effort of the State can accomplish in the building up of social institutions.

Of co-operative credit in general, it may be said that it has done more to improve the economic condition of the peasant and to liberate him from the curse of usury than all the laws and edicts of public authorities combined. The following is an illustration of the transformation wrought in one village by a single Raiffeisen bank. The example might be paralleled in innumerable other instances. 'Before the year 1862, the village (of Anhausen) presented a sorry aspect; rickety buildings, untidy yards, in rainy weather teeming with filth, never a sight of a decently piled manure heap; the inhabitants themselves ragged and immoral: drunkenness and quarrelling universal. Horses and oxen belonged with few exceptions to Jewish dealers. Agricultural implements were scanty and dilapidated; and badly worked fields brought in poor returns. The villagers had lost confidence and hope; they were the serfs of dealers and usurers. To-day Anhausen is a clean and friendly-looking village, the buildings well kept, the farmyards clean even on work-days; there are orderly manure heaps on every farm. The inhabitants are well if simply clothed, and their manners are reputable. They own the cattle in their stalls. They are out of debt to dealers and usurers. Modern implements are used by nearly every farmer, the value of the farms has risen, and the fields, carefully and thoroughly cultivated, yield large crops.'[1]

Like other social movements, co-operation has its 'International'. The International Co-operative Alliance, founded in 1895, was intended to establish communication between the co-operators of different countries and provide a common meeting-ground for the different forms of co-operation which we have described. This second function it has only partially fulfilled. The representatives of the consumers' societies have always been in an overwhelming majority at its triennial Congresses, and they have committed the alliance to the consumers' programme, the 'co-operative socialism' of the School of Nîmes. This policy naturally is distasteful to the supporters of the other branches of co-operation, which all rest more or less on a basis of individualism, and the result has been numerous secessions. To-day, the Alliance must be regarded as almost entirely the organ of the consumers' movement. It includes the co-operators of a hundred thousand societies in 30 different countries and represents a total co-operative population of about 150 millions.

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[1] Quoted in Fay, *Co-operation at Home and Abroad*, pp. 49–50.

CHAPTER XI

PROFIT-SHARING AND CO-PARTNERSHIP

THE movements we are about to study in this chapter may be described as examples of paternalism in industry. They are attempts to modify the terms of the wage-contract from the side of the employer, just as trade unionism and co-operation are attempts to modify it from the side of the worker. The initiative is taken in this case by the capitalist who voluntarily divests himself of certain of his privileges and admits his employees to a share in his business, it may be simply to a share in the profits, or it may be to a share in the profits and the management combined. In either case, the result is to substitute a partnership for the dependent relations which previously united labour and capital. Sometimes, indeed, the employer may go further and abdicate his sovereign position altogether, transforming his business into a co-operative enterprise to be run by his employees. But the cases where profit-sharing has produced this revolutionary result are rare, and the supporters of the movement are content to set before themselves a more limited aim, namely, the establishment of some kind of alliance between the two chief agents of production. The oldest existing examples of profit-sharing are to be found in France,[1] and it is two French industrialists, Leclaire and Godin, who are generally regarded as the pioneers of the movement. The careers of the two men present a remarkable similarity. Both commenced life as simple workmen and raised themselves by their energy and ability to positions of wealth and influence. Both used the power which their wealth gave them in attempts to rescue labour from its condition of degradation and to raise the worker's standard of life. Leclaire was originally a journeyman house-painter who set up in Paris on his own account in 1827. He had not been long in business before he discovered that through the carelessness and dishonesty of his workmen he was losing something like 75,000 francs a year. How to obviate this waste became his constant preoccupation. He tried treating his workers well, paying them more than the standard rate and founding a Mutual Provident Society for their benefit. But these methods did not answer. He then began to experiment with the idea of profit-sharing, but here he had to contend with the ignorance and prejudice of his workmen who could see nothing in his proposals but an underhand attempt to reduce wages. Leclaire could only overcome their scruples by calling them to a meeting, emptying a bag of gold on the table and there and then distributing to each of them a sum of 275 francs. The obstinacy of the workers could not hold out against so practical a proof of their master's sincerity. In 1842 the scheme was put into operation and worked with perfect smoothness until Leclaire's death. It was arranged that Leclaire should receive five per cent. on his capital in addition to a fixed salary as manager, and that the remaining profits should be equally divided between him and his workmen. In 1853 the workmen's share was increased when the expenses of the Mutual Provident Society were made a first charge on the profits of the business.

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[1] The profit-sharing scheme adopted by the French National Insurance Company in 1820 is probably the oldest surviving scheme in the world.

The practical object which Leclaire had in view was completely achieved. The workmen began to take a greater interest in the success of the business. Their conduct improved; they showed greater diligence and conscientiousness in the discharge of their duties; and excessive drinking and lying-off on Mondays became rarer. Leclaire always maintained that he was fully compensated in a pecuniary sense for the sacrifice of the profits which he made. When he died, in 1872, he was a rich man. He left a fortune of a million and a quarter francs, which according to his own testimony he could never have acquired without the assistance of his profit-sharing scheme.

Some years before he died, Leclaire practically withdrew from the business, after making arrangements for it to be carried on in the interests of his employees. The organization of the enterprise has undergone very little alteration since. There are three partners—one sleeping partner, the Mutual Provident Society—and two active partners, chosen from the employees of the firm. The electing body for this purpose is a select group of the workmen known as the Noyau, or kernel. They are all picked men, and vacancies among them are filled up by the members themselves. In addition to the Noyau, which occupies a position of cardinal importance in the business, there is a conciliation committee which adjudicates on disputes between the management and the workpeople. It also is elected by the Noyau. The business capital consists of 800,000 francs, of which 500,000 francs is supplied by the Mutual and 150,000 francs by each of the managing partners. In order that no employee may be debarred by poverty from aspiring to the highest position in the firm, it is provided that a retiring director may not demand his capital in a lump sum. He must take it in instalments from his successor, who pays it off gradually out of his annual share in the profits. There is therefore no financial barrier to prevent any employee from rising to a directorship, and the post has sometimes been filled by workers who started in the lowest rank of the firm. As the partners change, so does the title of the business, since according to French law, a firm must bear the name of its active partners. At present the business is known as *Redouly, Valmé et Cie, ancienne Maison Leclaire.*

The profits are divided in the following manner: Each of the directors receives a fixed salary and five per cent. on his capital. This five per cent. is all the reward which capital as such obtains out of the business. The remaining profits are divided in the ratio of 85 per cent. to labour and 15 per cent. to ability, that is, to the managing partners. Of the 85 per cent. which goes to labour, 50 per cent. is paid direct in cash bonuses to the workers and 35 per cent. is handed over to the Mutual to defray such gratuitous benefits as sick pay, medical attendance, old age pensions, etc. All the workers, however, do not share in the advantages of the Mutual. This privilege is reserved for members of the Noyau, who are thus rewarded for the important duties they discharge in the administration of the firm.

The social experiment of Godin presents many points of analogy with that of Leclaire, just as the careers of the two men so closely resemble each other. Godin also was born in poverty and served a hard apprenticeship in the school of life. He was the son of a village smith and started work when eleven. When he was seventeen, he followed the old custom of making a 'tour of France', gaining technical knowledge and widening his outlook. Of this strenuous time he wrote later: 'For me, day by day, returned the hard labour of an occupation which kept me in the workshop from five in the morning till eight at night. I saw in all its nakedness the destitution of the workman and his needs; and it was in the dejection that this brought upon me that in spite of my small confidence in my own ability, I said to myself: "If ever I lift myself above the condition of the workman, I will seek means to render his life happier, and to lift labour from its degradation."'

In 1840 Godin established a workshop in his native village for the manufacture of stoves and heating apparatus. The business prospered, and a few years later he removed it to Guise, which became the scene of his social experiments. By this time he had become interested in the ideas of Fourier, and in 1854 he gave proof of his social idealism by subscribing 100,000 francs to Victor Considérant's ill-starred scheme to found a fourierist community in Mexico. The failure of this enterprise and the loss of his capital sobered Godin, but did not quench his social enthusiasm. He resolved now to prosecute his schemes in a more restricted sphere and to realize Fourier's ideas so far as practicable within the limits of his own business. He began by erecting a huge social palace for his workpeople, which he intended as a kind of industrial *phalanstère*, and for which he invented the name of *familistère*. It was merely a collection of workmen's tenements built round a square which was covered over with a glass roof to provide a hall for meetings. Godin did not venture to introduce among his workmen the common board which was the fourierist ideal. The buildings of the *familistère* were divided into small flats in which each family lived its life separately. But certain communal services were organized such as a co-operative store, a laundry, a school (in the days before State education), a number of sporting associations, etc. Still, it was only in a very limited sense that the *familistère* reproduced the features of the *phalanstère*, and it would be more correct to describe it as the forerunner of those workmen's garden cities like Bournville and Port Sunlight, which were erected by philanthropic employers in the later nineteenth century.

In other ways Godin proved himself a social pioneer. He encouraged his employees to make suggestions for the improvement of the business both on its technical and administrative side, and he tried to introduce a system by which the workers themselves should decide the position which each should occupy in the business and the remuneration which he should receive. In this latter attempt Godin had to acknowledge defeat. The workers showed themselves quite incapable of distinguishing merit. They voted for their friends, their drinking companions or even for themselves, so that innumerable ballots were often necessary to obtain a majority.[1] This social experiment had to be definitely abandoned.

It was not till 1876 that Godin introduced the profit-sharing scheme by which he is best remembered. The scheme had two original features. One was the proportion in which the profits were divided between labour and capital. Godin held that as the value of the labourer's contribution to the business is measured by his wages, so the value of the capitalist's contribution should be measured by the interest paid to him. He therefore arranged for the profits to be divided in the ratio, not of wages to capital, but of wages to interest. The result was to double or even treble labour's share, and to reduce the share of capital by about 90 per cent. The second original feature in the scheme was the arrangement by which the workmen were gradually to buy out the capitalist and become themselves the owners of the business. Each workman's share of the profits was paid to him not in cash but in interest-bearing certificates and the principal was applied to redeeming the employer's share of the capital. The buying out of the capitalist was necessarily a lengthy process, but Godin cut it short in his own case by making his workmen his heirs and leaving to them the unredeemed portion of the capital (about two-thirds). When he died in 1888, the business became a co-operative enterprise and has functioned ever since under the constitution which he formed for it.

The main features of this constitution are as follows: The workers are divided into four classes, associates, members, sharers and auxiliaries. The highest class are the associates, and they correspond in character and functions to Leclaire's Noyau. It is they who elect the director and the council of management, appoint auditors, confirm the accounts and receive the annual report. Vacancies in their ranks are filled up by themselves. There is only one director and he holds office for life, but should the firm fail to earn profits during two consecutive years, the managing council may ask him to resign. This contingency has never arisen except during the exceptional period of the war when Guise was occupied by the Germans and the works were stripped of most of their technical equipment. Actually there have been only three directors in the life of the firm, Godin himself, Bernardot, and the present holder of the position, M. Colin.

The distribution of profits takes place in the following manner: Interest at the rate of five per cent. is paid on capital and the remaining surplus is divided in the proportion of three to one between labour and ability. Of the 25 per cent. which goes to ability, 4 per cent. is paid to the director (who in addition receives a fixed salary), 18 per cent. is divided among the committees of management and inspection, and 3 per cent. is set aside for educational purposes. The 75 per cent. which is labour's share is divided among the different classes of workers in unequal proportions. The associates receive 2 parts, the members 1½ parts, and the sharers 1 part. The auxiliaries do not participate directly in the profits but they benefit from important insurance and pension funds which are organized on behalf of all the workers.

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[1] For a full account of these experiments, *v.* Prudhommeaux, *Les Expériences Sociales de J. B. Godin.*

Neither Leclaire nor Godin, it will be observed, were equalitarians. A marked feature of their schemes is the unequal position assigned to different classes of workmen in the management of the business and in the distribution of the profits. Yet this inequality arises from function, not from social status, and is therefore not incompatible with industrial democracy, in the true sense of the word. Both schemes are interesting examples of the way in which industrial liberty may be reconciled with technical efficiency, and the economic independence of the workmen secured without impairing the output of wealth. As such, it was to be expected that they would prove the precursors of new and fruitful developments in industrial relations. This natural expectation has not been fulfilled. Leclaire and Godin have found no imitators and it would seem as if their great social experiments were incapable of being repeated. This sterility must be regarded as their condemnation. However brilliant its success within its own limited sphere, an experiment which does not provoke imitation must be reckoned a failure. As has been observed, it ceases in such circumstances to be an experiment and becomes a miracle.

Some other well-known profit-sharing schemes in France, which have not however led, like the two already described, to the abdication of the capitalist, are the National Insurance Company (1820), the Laroche-Joubert Paper Works (1843), the Chaix Printing Works (1872) and the Bon Marché, Paris (1880). The extent to which profit-sharing has been adopted by the French banks and insurance companies is a remarkable feature, which has no parallel in any other country. This development was mainly due to the propaganda work of Charles Robert, an official of the Union Insurance Company and a noted co-operator of the older school. Profit-sharing, it may be mentioned, figures prominently in the programmes of all the bourgeois political parties, and the legislature has given support to the movement by passing a special co-partnership law in 1917, authorizing employees to hold shares collectively in a business and to send representatives to the shareholders' meetings. Few firms, however, have availed themselves of these powers, and the law has proved almost barren of results.

Apart from an early example of profit-sharing on Lord Wallscourt's Irish estate in 1829, the first regular profit-sharing scheme in England was started in 1865 in the Yorkshire collieries of Messrs. Briggs. In that year, Messrs. Briggs, whose relations with their workpeople had not been too friendly,[1] turned their business into a joint-stock company and invited their employees to purchase shares. They further arranged that whenever the profits exceeded 10 per cent. half the surplus should be divided among the workers as a bonus in addition to the dividends paid on their shares. Four years later, a representative of the workmen shareholders was given a seat on the board of directors. This scheme remained in operation for about ten years, and during that time the workmen's bonuses were fairly substantial, amounting on an average to about 9 per cent. of their wages. The ultimate failure of the experiment was the result of the hostility of Messrs. Briggs towards trade unionism. They expected their men to abandon the union in return for the benefits of the profit-sharing scheme. At first, many of them did, but when coal prices soared in 1872 and colliers all over England were receiving advances of wages, the men gradually drifted back to the union. In 1874 a district strike occurred in which the employees of Messrs. Briggs took part, and as a result the profit-sharing scheme was cancelled in the following year. At its inception it had obtained great celebrity. Mill and other leaders of opinion hailed it as inaugurating a new era in industrial relations, and the disappointment and disillusionment created by its collapse were therefore all the deeper. At the same time, the attitude adopted by Messrs. Briggs to trade unionism had the unfortunate effect of inspiring the working classes with a strong suspicion of profit-sharing which has never been entirely eradicated.

As a result of the discouragement caused by the failure of the Briggs experiment, no further attempt was made to promote profit-sharing in England for fifteen years. The next scheme to be started was set up by the London South Metropolitan Gas Company in 1889. The employees of this company, mostly unskilled labourers, had recently formed themselves into a trade union and were making what the management considered exorbitant demands. It was felt that some bold step must be taken to counter this movement, and at the suggestion of its chairman, Sir George Livesey, the Company adopted a scheme of profit-sharing. Unfortunately, the first result was a quarrel with the trade union, culminating in a strike in which the workers were completely defeated. The effect was to deepen still further the distrust felt by trade unionists for profit-sharing. Yet notwithstanding this inauspicious start, the scheme worked smoothly. The men received a bonus varying with their wages and with the price of gas. Until 1895 the bonus was paid directly in cash, but thereafter half was retained by the Company and compulsorily invested in its shares. By 1914 the workmen had nearly half a million pounds invested in the Company, and the employee shareholders had the right to elect three of the ten members of the board of management. Unfortunately, the quarrel with the union was never quite composed, and until 1905 each employee was obliged to sign a document repudiating trade unionism. Though this practice is now given up, the memory of it still rankles, and the Gas Workers' Union has never become reconciled to the principle of profit-sharing.

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[1] The colliers' point of view was expressed in the saying, 'All coal-masters is devils, and Briggs is the prince of devils.'

The example set by Sir George Livesey was followed by other gas companies until on the eve of the war, more than thirty of them had profit-sharing schemes in operation. The gas industry indeed is the only one in Britain which can be said to practise profit-sharing on anything like a national scale. Other notable schemes started by private firms are those of Messrs. Taylor, Batley (1896), Lever Bros. (1909), and Armstrong, Whitworth & Co. (1896). In 1907 the Limited Partnership Act made it possible for the employees of a firm to acquire collectively an interest in the business. One firm, Gilbert Bros., boot manufacturers, Nantwich, took advantage of this provision, but its scheme was brought to an end in 1912 at the request of the employees.

The following figures illustrating the general progress of profit-sharing in England are taken from the latest government report on the subject.[1] Between 1829 and 1919, 380 schemes in all were founded. Of these, 198 were for various reasons abandoned, leaving 182 in operation. Most of the existing schemes have had a very short life. Only 36 of them date from the year 1901 or earlier, and 95, or more than half, originated after 1911. The average duration of the existing schemes is about 14 years.

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[1] *Profit-Sharing and Co-partnership*, 1920. Cd. 544.

In Germany the profit-sharing movement has little progress to show. The influence of Marxian Socialism has made the German workers suspicious of any proposals which seem likely to weaken the class solidarity of the proletariat, while the employers have shown little disposition to make voluntary sacrifices for the sake of their workers, especially after the institution by the State of compulsory schemes of social insurance. The attitude of the economists has also been critical. In 1874 the Association for Social Politics, comprising most of the professors of economics in Germany, published a report which contained conclusions distinctly unfavourable to the idea of profit-sharing.

The oldest existing profit-sharing scheme in Germany is that introduced into the Thann and Mulhouse Chemical Works in 1854. It does not seem to have attracted much attention, but in 1867 the celebrity acquired by the Briggs experiment in England led to the establishment of a scheme of profit-sharing by the Berlin brass manufacturer, Borchert, in conjunction with the statistician, Engel. The scheme came to an end in 1872, and its failure seems to have had an adverse effect on the general progress of the movement in Germany. In 1878, 54 schemes were recorded as being in operation, but only nine of these were found to be still in existence in 1901. Further, during this period, the total number of schemes in existence had declined to 42, and has shown little tendency to increase since. In one direction, however, the movement has achieved better results in Germany than in other countries, namely, in the application of profit-sharing to agriculture. In 1847, von Thünen, an economist of some originality, started a scheme of this kind on his estate at Tellow in Mecklenburg, which remained in operation until the property passed out of the possession of his family in 1896. Other schemes of a like nature were founded on the Jürgersdorf estate of Herr Blücher in 1874, and on the Wulfshagen estate of Count Reventlow in 1900.[1]

On a general view, it is extremely doubtful if profit-sharing has a great future before it. The figures referring to pre-war

[1] *Profit-Sharing and Co-partnership Abroad*, 1914, Cd. 7283, pp. 55–56.

years show a decline in the movement rather than an expansion. In 1893 the total number of schemes in existence throughout the world was 335; in 1900, 242; in 1911, 324.[1] There is nothing in these figures to indicate any vigorous capacity for growth. Nor is this surprising in view of the many practical and theoretical difficulties which exist in regard to profit-sharing. The worker objects to it as a plan to weaken his trade union, to lower the standard rate of wages, or at best to obtain from him an increased output in return for an insignificant reward. Few profit-sharing schemes add more than 10 per cent. to the wages-bill. The majority add very much less, and the gain derived by the worker is far too slight to inspire him with any enthusiasm for this method of augmenting wages. Employers, on the other hand, complain that the surrender of their profits produces no advantage sufficiently great to compensate for the sacrifice, that employees under profit-sharing schemes adopt the same attitude in industrial disputes as those of non-profit-sharing firms, and that after a time the workers come to regard as a right what was originally conceded as a favour. Difficulty is also caused by the impracticable demand of some employers that, in return for a share in the gains, the workmen shall consent to bear a proportion of the losses of the business. There are also strong theoretical objections to the conception of profit-sharing. If profits are the just reward of directing ability, then labour as such has no title to share in them. If they are not, on what ground does the employer at present retain them? Any attempt to set forth the theoretical justification for profit-sharing raises fundamental questions which either worker or employer would prefer to leave unanswered. As for the extension of profit-sharing known as co-partnership, while the theoretical objections to it are not quite so serious, there is the one great practical objection, namely, that it never succeeds in making labour more than a junior partner in the business, with very limited rights and powers. It does practically nothing to remove the worker's strongest complaint against the existing industrial system, its organization on an autocratic basis.

It must then be regretfully concluded that society is unlikely to find in the direction of profit-sharing any way of escape from its present difficulties.

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[1] Gide, *Les Institutions de Progrès Social*, p. 133.

CHAPTER XII

THE FACTORY LAWS

THE movement towards factory legislation was the first symptom of a reaction against the economic liberalism which reigned triumphant throughout Europe in the early nineteenth century. It was not, however, a conscious or deliberate reaction. The men who supported the factory laws had no definite theory to oppose to the prevailing sentiment in favour of individualism. They were not social philosophers. They were practical reformers, eager to apply to pressing evils the remedies which lay nearest to hand. Yet unconsciously they were the agents in a great revolution of thought and opinion. It was in the field of factory legislation that individualism suffered its first and heaviest defeat, and the factory laws may be regarded as the earliest signs of that social tendency, vaguely called collectivism, which has made such remarkable progress since. With justice, the factory reformers indignantly repudiated the titles of communist and socialist which their enemies applied to them. Yet the accusation contained more than the proverbial grain of truth. The theory underlying factory legislation, pushed to its extreme consequences, inevitably issues in something akin to socialism, and the factory reformers, though they did not know it, were blindly fighting the battle of principles to which most of them were in their hearts opposed. They supply one more illustration of the well-known truth that none go so far as those who know not where they are going.

It was in England, the home of industrialism, that the first efforts were made to control some of its unfortunate social consequences. One of the worst evils of the factory system in its early stages was the employment of women and children for excessively long hours in unhealthy and even dangerous surroundings. On behalf of these helpless classes, the protection of the State might be invoked, even when it could not be claimed consistently with individualist principles for adult males. The earliest factory laws dealt exclusively therefore with female and child labour, and indeed it is only in comparatively recent years that adult male workers have obtained the protection of the law. The first English Factory Act was passed in 1802. It was introduced by Sir Robert Peel, the elder, himself a millowner, and its object was to regulate the labour of parish apprentices in mills. These were pauper children whom the Poor Law Authorities got rid of by apprenticing to factory-owners. At this time labour for the mills was sometimes difficult to procure. A strong prejudice against factory employment existed in the minds of the working classes, and moreover many mills were built (for the sake of obtaining water power) in deserted hilly districts where population was sparse and labourers hard to find.[1] The parish apprentices came in very conveniently to supply this labour shortage and a regular traffic sprang up between the workhouses of the South and the factories of the North, perhaps the nearest approach to a slave trade that we have ever had in England. It was to afford some protection to these ill-treated overworked children that Peel introduced his Bill. The new Act restricted their working-day to twelve hours and made some provision for their education and for the comfort and cleanliness of their sleeping-quarters. But no adequate steps were taken to put the law into operation, and it gradually ceased to be applicable when the growing use of steam power enabled the factories to migrate to the towns and to profit by the labour of ‘ free children ’. In 1819, Peel, in conjunction with Robert Owen, who in his mills at New Lanark had carried out an interesting and successful experiment in the reduction of the working-day, secured the passage of a second Factory Act. It made the employment of a child under nine years of age illegal, and limited the hours of children under sixteen to 12 per day. But it applied only to cotton mills, and, like the earlier Act, contained no proper provision for its enforcement. This duty was entrusted to the Justices of the Peace, who in industrial districts were either millowners or the friends of millowners, and had therefore little interest in securing the proper administration of the law.

After 1830 the question of factory reform entered upon a new phase. Hitherto it had been left to the care of individual philanthropists like Peel or Owen. Now it became the subject of a great popular agitation. The factory operatives came to see in it an effective means of securing a shorter working day for all workers, equally effective and more feasible than the method of directly limiting the hours during which the machinery might be run. The latter proposal was bound to excite furious opposition from millowners and economists, but the demand for a limitation of the hours of women and children could be put forward without appearing to violate the precepts of *laissez-faire*, and would produce the same result, since without the assistance of female and child workers the machines could not be run. In its new shape the agitation for factory reform spread rapidly over the North of England. Short Time Committees were formed in all the industrial towns, and a number of Tory philanthropists like Oastler, Sadler, and Lord Ashley, later Earl of Shaftesbury, came forward and placed themselves at the head of the movement.[1] Oastler struck the first blow by publishing a series of fiery letters in the *Leeds Mercury* entitled ‘ Yorkshire Slavery ’, in which he scathingly denounced the hypocrisy of the radical manufacturers who wished to abolish negro slavery abroad while profiting themselves by a more infamous kind of slavery at home. Sadler, who was in Parliament, took the opportunity to demand a committee of enquiry into the conditions prevailing in factories. It was granted and the committee's report was of so sensational a nature that the government was compelled to do something. After referring the question again to a royal commission and receiving a report only slightly less lurid than that of Sadler's Committee, parliament passed in 1833 the first effective Factory Act. The new law applied to all textile factories. It forbade the employment of any child under nine, limited the working-day of children under thirteen to 9 hours, that of young persons under eighteen to 12 hours, and prohibited night work. Most important of all, it remedied the chief omission in the earlier Factory Acts by making proper provision for the enforcement of the law. Four factory inspectors were appointed, a step which Robert Owen had in vain urged the government to take in 1819. Though the number of inspectors was hopelessly inadequate for the work they had to do, yet their appointment provided some guarantee that the law would not remain a dead letter.

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[1] It is related of David Dale, the founder of the New Lanark Mills, that once in despair he inveigled a crew of shipwrecked sailors into his factory. They did not stay long.

In spite of its many valuable features, the Act of 1833 did not find much favour with the factory reformers. They regarded it, with some justice, as an attempt to sidetrack the 10-hours' movement, and they resolved to press on with their agitation. Gradually they won over a majority of the rank and file of the two great political parties, but the leaders remained for the most part deaf to their arguments. The opposition of the political chiefs delayed the final triumph of the movement for many years. In 1844 it seemed that the goal was at last reached. Lord Ashley succeeded in carrying an amendment to a Government Factory Bill which would have had the effect of instituting a 10-hours' day for women. But the Tory Home Secretary, Sir James Graham, compelled the House to rescind its decision by threatening the resignation of the Cabinet. The Act of 1844, though it failed to realize the great object for which the factory reformers were striving, was nevertheless a useful and valuable measure. It extended legal protection to women, instituted a 12-hours' day for them as well as for young persons, and made provision for the fencing of dangerous machinery. The final victory of the 10-hours' movement came almost unexpectedly. In 1847 Sir James Graham and his colleagues had been driven from office, and a Whig Ministry reigned in their stead. A Ten-Hours Bill was introduced by Fielden, Ashley for the moment being out of Parliament, and passed through all its stages in both Houses with little opposition. It received the Royal Assent on 8th June, 1847.

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[1] All the factory reformers, however, were not Tories. Fielden, one of the few manufacturers to support the movement, was a Radical.

The passing of the Ten-Hours Bill was, as Marx declared, a great victory for working-class principles[1] and it was hailed with enthusiasm in the industrial districts. But its consequences were not quite what the factory operatives had anticipated. They had expected that the 10-hours' day, though granted by the law only to women and children, would be automatically extended to them. They had reckoned without the masters, who were fully resolved to balk this wish. Though women and children could not be employed for more than ten hours, yet they could be employed at any period between 5.30 a.m. and 8.30 p.m. The masters therefore instituted a complicated relay system which enabled them to keep the machinery running for 12 hours or more. The women and children were kept hanging about the factory in the intervals of work and were deprived in practice of the boon which Parliament had desired to confer on them. This policy could only be met by reducing the daily period during which women and children could be legally employed. This was done by two Acts of 1850 and 1853 which fixed the legal working-day [1] at 12 hours, either from 6 a.m. to 6 p.m., or from 7 a.m. to 7 p.m. As 1½ hours had to be allowed for meals in addition to the 10 hours during which the women and children were actually working, there was no longer any inducement to put a relay system into operation, and the adult male workers at last secured the privilege for which they had been so long contending—a 10-hours' working-day.

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[1] 'The English factory workers were the champions not only of the English but of the modern working-class generally.'—*Capital*, pp. 285–6.

The employing class, though compelled to acknowledge defeat on the question of the relay system, were as yet quite unreconciled to the principle of factory legislation. They founded a National Association of Factory Owners, parodied by Dickens in *Household Words* as 'the Association for the Mangling of Operatives', and set themselves to agitate for the repeal or the amendment of the Factory Code. In 1856 the Association won a small victory when the provision in the Act of 1844 prescribing the fencing of machinery was amended so as not to apply to machines with which men only were likely to come in contact. But this was the full extent of the Association's success, and gradually the opposition of the millowners died away, especially after they realized that the shortening of the working-day had not the detrimental effect on output which they had feared. Into the shorter period the workers were able to concentrate as much if not more effort than they had formerly spread over the longer working-day. The withdrawal of opposition on the part of the mill-owners immensely lightened the task of the factory inspectors, who were now able to devote part of their time to the consideration of suggestions for the improvement and extension of the law.

By the 'sixties it may be assumed that the principle of factory legislation commanded almost universal assent, and the later history of the factory laws is simply the record of their gradual extension from the textile trades to all other branches of industry. Already the mines had been brought under control in 1842, when the employment of women and children underground was forbidden. In 1867 regulation was extended to workshops as well as to factories, and in 1878 the existing Factory Acts were consolidated into one general statute. In connection with the debates over this measure, there was, however, a recrudescence of opposition from an unexpected quarter. The supporters of the recently started movement in favour of women's rights came forward and denounced the factory laws on the grounds that they imposed unfair restrictions on female labour and handicapped women in their efforts to obtain employment in competition with men. This objection, which was based on a complete misapprehension of the purpose of factory legislation and an inexcusable confusion between penal and protective laws, obtained greater success than it deserved, and Professor Fawcett in the House of Commons was able to secure some important amendments to the Act of 1878 which weakened the control of the factory inspectors over women's workshops. The progress of factory legislation, however, suffered little from this temporary set-back. Its advantages were too plain to be disputed and the principle of public control continued to be extended with astonishing perseverance until to-day there is scarcely any form of labour which is exempt from regulation. Parliament has even overcome its reluctance to fix the hours of adult male workers. In 1908 it established an 8-hours' day for miners, and in 1912 a weekly half-holiday for shop-assistants, male as well as female. A further consolidating Act was passed in 1901, but the Factory Code is constantly in course of being extended either by special statutes or by administrative orders, the Home Secretary possessing a large discretionary power to issue regulations for particular trades without recourse to Parliament.

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[1] That is, the hours during which women and children could be employed—not the maximum working-day.

In France the doctrine of economic liberty which had acquired such prestige through the events of 1789 was for long a serious obstacle to factory legislation. Yet in one or two early instances the State departed from the general rule of non-interference. In 1813, for example, it forbade the employment of children in mines, nearly thirty years before a similar restriction was imposed in England, and in 1814, the legislature, under clerical influence it is true, passed a measure prohibiting work on Sundays and holy-days.[1] But there was no deliberate demand for protective legislation until the 'twenties and 'thirties, when the question of child labour in factories began to excite attention. In 1827, Burchardt, a philanthropic manufacturer, brought the subject to the notice of the *Société Industrielle de Mulhouse*, and a little later the Academy of Moral Sciences at Paris sent one of its members, Dr. Villermé, to report on the condition of children in factory towns. Villermé, an ex-army surgeon, who had already taken part in many philanthropic movements, was a supporter of the economic doctrines of the liberal school and an opponent, in general, of State intervention. But what he saw of the sufferings of the factory children moved his indignation, and his report, published in 1839, contained a strong plea for legislative interference on their behalf. The facts revealed in Villermé's report were of such a kind that no government could refuse to take action, and in 1841 the first French factory law was passed. It prohibited the employment of children under eight, fixed an 8-hours' day for children under twelve and a 12-hours' day for young persons under sixteen. The chief defect of the measure was the omission to provide any proper machinery for its enforcement. This duty was assigned to honorary commissions of magistrates and public functionaries working in each district under the supervision of the Prefect. In 1843 it was reported that 250 such commissions were in existence and that 1,600 persons were engaged in the administration of the law. But the work was done very perfunctorily, and little attempt was made to enforce the regulations limiting the labour of children under twelve. In consequence of numerous complaints, an important amending Act was passed at the beginning of 1848, which introduced the half-time system for children, extended protection to women, and set up a paid inspectorate. But the outbreak of the Revolution in February of this year prevented this excellent measure from coming into operation.

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[1] This law was not repealed until 1880.

Of all the many laws passed under the Second Republic for the protection of the working-class, none of any importance survived except the law of September, 1848, which fixed the maximum working-day at 12 hours. The restriction applied to men as well as to women, and France has thus the distinction of being the first European State to take the male adult worker under its protection. The law was never very strictly enforced, numerous exemptions being granted by government decree, but it remained on the statute book until the institution of a general eight-hours' day in 1919.

Under the Second Empire, despite the unsympathetic attitude of the government, interest in the question of factory legislation remained keen and numerous philanthropic societies and learned bodies continued to devote attention to it. In 1867 the important National Society for the Protection of Factory Children was formed, and in the same year the sociologist, Le Play, organized a Social Economy Section in the Paris Exhibition, which did much to stimulate interest in the subject. An important development of this period was the appointment of local factory inspectors by a number of departmental authorities, the State declining, in spite of many representations, to take any step in this direction. The Imperial Government, indeed, notwithstanding its profession of social sympathies, did very little for factory legislation. No important change in the law was made until 1868, when expert engineers were appointed to provide for the safety of steam boilers in industrial establishments, and a permanent Advisory Committee was created to suggest improvements in the working of the Factory Acts. In 1870 the government bestirred itself so far as to present a comprehensive factory law to the legislature. But the ill luck which has dogged so many projects of factory reform in France did not fail on this occasion. Before the debates were concluded, the Franco-German War broke out and the government had its hands too full to proceed further with a measure of this kind.

The task which the Second Empire had left unfinished was taken up and concluded by the Third Republic. In 1871 proposals for a new factory law were laid before the National Assembly, but the opposition proved so stiff that it was 1874 before they received legislative sanction. The new statute made drastic changes in the law. It raised the minimum age for child-workers to twelve (in exceptional cases it was lowered to ten). It brought women under the protection of the law by prohibiting night work for female workers under twenty-one, and it established for the first time a corps of State factory inspectors. Local commissioners, nominated partly by the departmental councils, partly by the prefects, were to assist in administrating the law in each department, and the permanent Advisory Committee was maintained. The new statute was not popular with the employing class, and its administration in a country where the tradition of economic freedom was so strong presented great difficulties. Yet opinion in its favour slowly gathered strength, and demands for its more stringent enforcement led to an increase in the number of factory inspectors from 15 to 30. In 1892 the law was again amended. A maximum working-day of 11 hours was established for women, and of 10 hours for children, the government rejecting the recommendation of the Advisory Commission that the 11-hours' day should be extended to men. One result of the Act of 1892 was to introduce a discrepancy between the working hours of different categories of workers who might all be employed in the same factory. The law permitted men to work 12 hours, but limited the working-day of women and children to 11 and 10 hours respectively. In order to ensure that the men at least should put in a 12-hours' day, the employers worked their women and child labourers in relays as had been done by the English factory-owners in the 'forties and 'fifties. This practice did not cease until, in 1900, the legislature instituted a uniform 10-hours' day for all workers in industrial establishments where women and children were employed. In 1892 a weekly day of rest was assured to women and children, and in 1906 this privilege was extended to all workers in commerce and industry. But the law has worked badly, especially with reference to shops. In France there are a very large number of small shops, managed by the owner or his wife, which do not come under the law. This is unfair to the larger establishments which must close one day a week. A law applying only to employees is not suitable to French conditions. What is wanted is a universal closing order such as exists in England. But to Frenchmen with their strong bias in favour of individual liberty, such a measure would appear an unwarrantable interference with economic freedom, and would be difficult to enforce.

Since the war, the most important example of legislative interference on behalf of labour in France has been the institution of an eight-hours' day for all except agricultural workers. The law may be quoted as an instance of panic legislation. It was hastily passed to placate the workers on the eve of the May Day demonstrations of 1919, which the government feared might issue in a bolshevist revolution. While the social benefits of the law are unquestioned, it must be frankly admitted that the curtailment of the working-day has produced a serious decline in the industrial output of France.

Amongst German States the lead in regard to factory legislation was taken, as in most things, by Prussia. In her industrialized districts of the Rhineland the evil effects of the factory system soon made themselves felt, and about 1818 reports began to reach the government of abuses in connection with the employment of child labour. The authorities, however, were slow to move. In 1824 reports were called for from the governors of the Rhineland districts, and the Minister of Education attempted to impose some limitation on the hours of child workers. But this immediately produced a protest from the Minister of the Interior, who maintained that the restriction would place German manufacturers at a disadvantage in competition with their foreign rivals. The proposal was not proceeded with. In 1828 the question was raised again in a somewhat sensational fashion. The general in command of the Rhine provinces stated publicly that owing to the physical deterioration of the population, the industrial districts were no longer supplying their proper contingent of recruits to the army. Always sensitive where questions of military defence were concerned, the Prussian Government immediately issued orders that the excessive employment of children should be curtailed, but again friction between the different government departments concerned interposed to cause delay. For a few more years the question slumbered, until public attention was recalled to it by Schuckhardt, a humanitarian employer from the Rhineland, who published a series of press articles on the subject. This time the government decided at last to act, and in 1839, twenty-one years after the question had first been raised, a factory law was passed. It prohibited the employment of children under nine and restricted the hours of young persons under sixteen to 10 per day. The administration of the law was committed to the police in conjunction with the education authorities, the co-operation of the latter being explained by the provision that each factory child should spend 5 hours per day at school. The faulty drafting of the Act prevented the smooth working of this arrangement. In addition to its 5 hours' schooling, each child was permitted to work 10 hours with intervals of 1½ hours for meals—in all 16½ hours. But the period during which a child could be employed in a factory or in attendance at school was fixed by the law at 16 hours only (5 a.m. to 9 p.m.), and there were continual battles between the factory-owners and the education authorities over the odd half-hour. In 1849 the government experimented with the idea of entrusting control to representative councils from the various industries concerned, which were to fix the length of the working-day after hearing evidence from the interested parties. This experiment did not prove a success. Industrial councils were set up in a number of industries, but for want of legal powers and machinery to enforce their decisions, they soon ceased to exercise any influence.

No important change in the Act of 1839 was made until 1853. Two years previously an inquiry instituted by the Minister of Commerce and Industry had made it perfectly clear that the factory regulations were not being put into force, and this was generally ascribed to the want of executive officers to see that the law was observed. The government proposed to remedy this by creating a factory inspectorate on the English model, but in view of the opposition excited, it undertook to appoint inspectors only in districts where they were specially required. In the event, inspectors were only appointed for three highly industrialized areas. Besides establishing this permissive system of factory inspection, the 1853 Act raised the minimum age for child-workers to twelve and limited the hours of children under fourteen to 6 per day.

By the resistance which they offered to the new inspectors in the discharge of their duties, the Prussian employers showed how keenly they resisted any interference with their authority over their workers. Every possible step was taken to make the work of factory inspection of no effect. Sentinels were posted to give warning of the inspector's approach and child-workers were bullied into telling lies regarding their age. The local authorities completely sympathized with the attitude of the employers and never ceased to make representations in favour of the repeal of the Factory Acts. But despite this pressure, the government stood firm and refused to entertain any proposal to abolish the factory inspectorate. The opposition, however, was so far effective that no more inspectors were appointed, and this meant that in most industrial districts the factory laws remained a dead letter.

In the other German States, up to this time, factory legislation was either non-existent or only partially developed, but with the foundation of the Empire, the Prussian factory code was extended to all parts of Germany. In 1869 this took place for the territories included in the North German Confederation. The debates in the legislature over this step revealed a curious grouping of parties. The conservatives and the socialists supported the measure, while it was opposed by the liberals in the name of economic liberty. Hirsch and Dunker, the founders of the liberal trade unions, were prominent among the critics of the law. Partly as a result of this opposition, the Act of 1869 maintained the permissive system of factory inspectors. But it contained one provision which was destined to have important results. Section 107 ran: 'Every employer is obliged to provide and maintain at his own expense all appliances which are necessary in view of the particular nature of the branch of industry and the place of work in order to protect the workers as far as possible against danger to their life and health.' This, like all other provisions of the Act of 1869, was left to be enforced by the State governments, and in Prussia the work of supervision was at first entrusted to the police. But as police officers had not the necessary qualifications for work of this kind, the government decided with some reluctance to assign the task to the factory inspectors. This meant a large addition to their duties and the government was not only compelled to increase their number, but to appoint persons with technical knowledge and practical experience of factory management. It was also felt that the powers of the inspectors should be extended. As things were, they had no executive authority. If an employer failed to comply with an order, the inspector could only apply compulsion by instituting proceedings against him in a law-court. It was for the court to say whether the order was justified or not. This was a clumsy and uncertain procedure, and in view of the admitted defects in the existing system of factory administration, the government decided at length to make the factory inspectorate universally compulsory and to enlarge its powers. But opposition developed from an unexpected quarter. The Imperial Chancellor, Bismarck, objected to any extension of factory inspection, alleging, what seems a strange argument in his mouth, that it would lead to bureaucratic tyranny. Perhaps, as has been suggested, it was the junker's dislike of outside interference with his tenants that made Bismarck sympathize with the point of view of the employers. Whatever the explanation, the Chancellor's attitude forced the government to modify its proposals. The Factory Bill introduced in 1878 maintained the optional character of factory inspection, and deprived the inspectors of power to enforce the famous Section 107 of the Act of 1869. But public opinion on this question was far in advance of the government, and the Reichstag refused to accept these proposals. It insisted that the inspectors should retain their powers and carried an amendment making the system of inspection universal and compulsory. To save the bill, Bismarck had to accept these changes, but he resolved to weaken their force so far as he could by administrative action. The inspectors were forbidden to take action against a factory-owner without receiving permission from the higher administrative authorities. Thus a strict censorship was established over the activities of the inspectorate, and the more thorough and genuine administration of the law which the Reichstag desired to see was effectively prevented. Meanwhile, Bismarck had under consideration a plan by which the regulation of factory conditions should be assigned to associations of employers in each industry. These associations were to act primarily as mutual insurance societies against accidents to workmen, but in that capacity they were to have power to draw up regulations for the safe working of factories and to appoint inspectors to see that the regulations were observed. This scheme received legislative sanction in 1884, but it did not work well. Employers' associations were formed, but few of them troubled to issue factory regulations, still less to appoint inspectors. A few years' experience revealed the complete inadequacy of this voluntary system as a substitute for State factory inspection.

So long as Bismarck remained in power, nothing was done to remedy the defects of the Act of 1878, but after his death the atmosphere changed. The young Emperor, William II, showed his interest in social questions by summoning an international labour conference to meet at Berlin in 1890, and in the following year he sketched in a speech to the Reichstag the outline of a fresh factory law. This law of 1891 is still the foundation of the German Factory Code. It extended regulation to workshops as well as factories, raised the minimum age for child-workers to 13, and fixed an 11-hours' day for women (reduced in 1908 to 10 hours). The labour of children under fourteen was limited to 6 hours per day, and of children under sixteen to 10 hours. Sunday work was restricted. The factory inspectorate was reorganized and extended. But the administration of the law was still left to the Federal authorities, and no attempt was made to establish a uniform system of factory inspection throughout Germany. Another peculiar feature of the German Factory Code was also left unaltered. The execution of the law was left to the police. The factory inspectors report, advise and recommend, but in the last resort, it is the police authorities who set the law in motion.

After the war, the institution of a general 8-hours' day rendered many parts of the old German factory code obsolete. It must be observed, however, that the rule of an 8-hours' day is no longer universally enforced in Germany. On various pretexts the government has been induced to grant numerous exemptions. This was particularly the case during the critical years 1922–23. The chief argument put forward for a lengthening of the working-day was the necessity for an increased industrial output in view of the heavy demands by the Allied Powers for reparations. As a result of the numerous exemptions granted, a great part of the German industrial population is now working a 9-hours' or even a 10-hours' day.

International Labour Legislation

One of the strongest objections that can be urged against factory legislation is the unfair handicap which it imposes on those countries that grant legal protection to their workers in competition with those who do not. This is an objection which can only be removed by some form of international agreement, establishing universal standards and conditions to be observed by all industrial nations. The idea is an obvious one and its intellectual history goes back for more than a century. The international regulation of labour was one of the original conceptions which germinated in the fertile brain of Robert Owen. In 1818 he addressed a petition to the powers of the Holy Alliance assembled in congress at Aix-la-Chapelle, urging the fixing of a uniform working-day for the industrial workers of Europe. This proposal bore no fruit, but the principle behind it was kept alive and developed by economists and social reformers throughout the nineteenth century, by men like Villermé, Wagner, Brentano, Wolowski and Count Albert de Mun. It did not, however, receive any practical expression until the famous international labour conference summoned by the German Emperor at Berlin in 1890. This conference was attended by representatives of fourteen nations and passed some important resolutions. But in practice it led to little more than an exchange of views and opinions. During the next twenty-five years international conferences of a similar character took place at intervals, amongst which the two conferences held at Berne in 1905–6 were the most successful. The Berne conferences led to the prohibition in most of the industrial countries of Europe of the night work of industrial women-workers and of the use of white phosphorus in the manufacture of matches. This represents the highest point reached in the international regulation of labour before the war.

With the conclusion of the Peace of Versailles in 1919, the movement for the establishment of universal standards in industry entered on an entirely new and most hopeful phase. The signatories to the peace treaty stated in the preamble that universal peace 'can be established only if it is based upon social justice', and they proceeded to enunciate a number of principles of which the declaration that labour is not to be regarded 'merely as a commodity or article of commerce' may be taken as typical. To give effect to these principles, Part XIII of the Treaty provided for the establishment of an International Labour Organization, consisting of a Conference and an Office. These two institutions roughly divide between them the functions of legislature and executive. The Conference meets at least once every year and consists of representatives of the countries which are members of the League of Nations.[1] Each state sends four delegates, two representing the government, and two the employers and employees of the nation. The latter are chosen by the government in consultation with the appropriate employers' and workers' organizations. The delegates vote individually, but a two-thirds' majority is required for important decisions. The resolutions of the Conference are embodied in conventions and recommendations, the first being drafts of laws which can be adopted as they stand by the member states, the second expressing principles which the individual states are invited to translate into practice by special legislation. The Conference, it is important to remember, has no sovereign powers. All its conventions and recommendations are subject to ratification by the individual states.

The International Labour Office is situated at Geneva, and is governed by a committee of 24 members, 12 representing governments, 6, employers, and 6, workers. Of the government representatives, 8 are named directly by the 8 states of chief industrial importance.[2] The remaining 4 are chosen from countries not already represented, by the other government delegates to the Conference. The employers' and workers' representatives are selected without restriction by the groups of employer and worker delegates respectively. The governing body appoints the permanent head of the Office, who in turn makes subordinate appointments.[3] It is the duty of the Office to collect information, to conduct special investigations, to issue reports, and generally to facilitate the work of the annual Conferences.

Between 1919 and 1929 the I.L.O. held twelve Conferences, most of them at Geneva, and adopted twenty-nine conventions, which have secured in all 362 ratifications from the member states. The most important convention was the first, adopted at the Washington Conference in 1919. It provides for a universal 8-hours' day or a 48-hours' week. By 1929 fifteen states had ratified or promised to ratify this convention, including all the countries of chief industrial importance with the exception of Japan. Robert Owen's dream of a normal working-day for all European workers has thus made great progress towards realization.

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[1] As the United States and Russia are not members of the League, they do not form part of the Organization. Germany, on the other hand, was admitted to the I.L.O. before she became a member of the League.

[2] In 1919 the following states were placed in this group: Belgium, France, Great Britain, Italy, Japan, Germany, Switzerland, and, pending the adhesion of the United States, Denmark.

[3] In 1919 M. Albert Thomas, a French labour leader, was appointed Director.

CHAPTER XIII

THE POOR LAWS

FACTORY legislation was by no means the earliest example of the tendency of the modern state to interfere on behalf of the economically weaker classes of society. Since the period of the Reformation, most of the great European states had definitely accepted the principle that the destitute poor had a legal claim on society for support, and in the compulsory systems of poor relief established throughout Europe in the sixteenth century we have the first notable illustrations of State intervention with a social purpose. The sixteenth century was an era of new departures—in social legislation no less than in religion and politics. During the Middle Ages the alms distributed by the Church and the charity of private persons enabled society satisfactorily to discharge its obligations to its poorer members. But the break-up of the medieval economic system, the destruction of the older forms of village life, the expansion of commerce and industry, and the victory of freedom of enterprise over custom and prescription, all combined to create a mass of pauperism with which private agencies could no longer cope. In Protestant countries the problem was complicated by the disendowment of the ancient Church, which removed the principal source of charitable relief, and left the State with no alternative but to accept itself complete responsibility for the care of the destitute. Even in the countries which rejected the Reformation and where the old Church continued to discharge its charitable functions, the unprecedented growth of pauperism compelled the State to assume new obligations. Thus in Catholic and Protestant countries alike, the sixteenth century witnessed the development of State systems of poor relief. But in Catholic countries the survival of the charitable institutions controlled by the Church enabled the State to evade complete responsibility for the destitute and to establish a system of poor relief which was semi-private in character, the care of the poor being left very largely to voluntary agencies. No such course was open to the governments of

Protestant countries. In England, as early as 1601, the law explicitly recognized the right of every destitute person to receive relief from the public authorities. In France no such right was recognized until 1893, prior to which date rigid individualists could comfort themselves with the reflection that in at least one European state the semi-socialist principles implicit in every compulsory system of poor relief had never received public recognition. This broad distinction between the poor laws of Protestant and Catholic countries is an interesting illustration of the influence which the Reformation has exercised on the social development of the European nations.

Of Protestant countries which established unqualified systems of State poor relief, England is the most conspicuous example. The foundations of her poor law were laid by the great Elizabethan statute of 1601, which was not amended, except in unimportant particulars, until the Poor Law (Amendment) Act of 1834. In England the duty of the State to care for the nation's poor was fully acknowledged, but by devolving this responsibility on the local authorities, Parliament avoided the necessity of establishing a national system of poor relief in the proper sense of the term. The ecclesiastical area of the parish was made the unit of poor law administration, and each parish became responsible for its own poor. A destitute person could only claim to be relieved in the parish to which he belonged or in which he had acquired a settlement, as the technical phrase runs.[1] The local authorities to whom the care of the poor was entrusted were the justices of the counties. They were empowered to levy a compulsory poor rate on all occupiers of lands and houses, and to appoint overseers in each parish to collect and expend the rate under their supervision. The methods of relief were prescribed by statute. Pauper children were apprenticed to useful trades and put in a position to earn their own livelihood. The aged and the sick were relieved in their homes. Incorrigible vagrants were imprisoned in houses of correction and the honest unemployed were given work by the parish authorities. This last provision has a special interest for us and there is evidence that it was carried out fairly systematically during the early seventeenth century. The parish authorities were instructed to lay in supplies of raw materials such as wool, flax, hemp, iron, etc., and issue them to the unemployed to be worked up at home. This was a perfectly feasible arrangement at a time when the domestic system prevailed in industry. The receipts from the sale of the finished goods were expected to meet the cost of paying the unemployed wages at the current rates and also to provide a surplus which could be used to lay in a fresh supply of raw materials. These expectations were seldom fully realized. The local administrators of the seventeenth century had not discovered any more than those of our own day the secret of making relief works self-supporting. In most parishes the unemployment fund gradually dwindled and had to be supplemented from the rates. In the later seventeenth century this branch of the poor law ceased to be put into operation.

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[1] Thus was opened a long and most vexatious chapter in the history of the English poor law, which was not closed until nearly three centuries later. The problem of settlement was a direct result of the failure of Parliament to establish a national system of poor relief.

The important question of what constituted the poor of a parish was not properly decided until the Settlement Law of 1662. By this notorious statute, which has gained a very evil reputation in history,[1] a settlement might be acquired by forty days' residence in a parish, with the important proviso, that any new-comer could be removed within that period by order of two justices if he was considered likely to become an object of poor relief. The Act was passed with the best intentions. It was meant to give a clear statutory definition of what constituted a settlement and at the same time to protect the wealthier parishes against invasion by paupers from poorer districts. But its results were of the most mischievous kind. It rendered labour immobile, just on the eve of a period of industrial expansion when mobility of labour was all-important, and at the same time it inflicted severe injury on the labouring classes. The poor labourer became practically a prisoner within his own parish. He could not leave it to seek for work or to try and better his condition. 'There is scarce a poor man in England of forty years of age,' affirmed Adam Smith in his trenchant denunciation of the statute, 'who has not in some part of his life felt himself most cruelly oppressed by this ill-contrived law of settlements.'[2] Some improvement was effected by the Removal Act of 1795, which forbade justices to remove new-comers until they actually became chargeable to the parish. But the many intricate questions connected with settlements were not properly disposed of until the second half of the nineteenth century, and even yet the subject is a source of trouble to poor law administrators.[1] Sixty years after the Settlement Law, another poor law statute was passed to which a significance has been sometimes attributed greater than it really deserves. The Act of 1722 permitted parishes to join together for the purpose of erecting workhouses and authorized them, if they saw fit, to refuse outdoor relief altogether. Some historians have seen in this an early attempt to impose the 'workhouse test' and have affirmed that the statute brought about a decline in the growth of pauperism. But this is almost certainly to misconceive its real purpose. The workhouses of the eighteenth century were not the penitential institutions which they became at a later period. They were either, as their name implies, places where work was provided for the unemployed or else houses of refuge for the destitute. Comparatively seldom were they made use of to discriminate between the deserving and the worthless poor.[2] A more probable motive behind the Act was the simple one of economy. By concentrating the paupers in a single building, they might be maintained at a smaller cost to the ratepayers. In any case, the Act was an optional one and comparatively few parishes took advantage of it.

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[1] 'It is not often that we can say of a law that it was utterly bad even when it was passed, but we may say this of the Poor Law Settlement Act of 1662.'—Fay, *Great Britain from Adam Smith to the Present Day*, p. 335.

[2] *Wealth of Nations*, Book I, Ch. 10.

The next important landmark in the annals of the English poor law is Gilbert's Act of 1782. As an example of mischievous legislation its reputation is almost as bad as that of the Settlement Law of Charles II. Yet it, too, was inspired by the best of motives. Its promoter, Thomas Gilbert, M.P. for Lichfield, was an excellent type of the country gentleman of the period, philanthropic, genuinely interested in the condition of the poor and anxious to improve their lot. His measure contained some sensible administrative provisions. Parishes were authorized to form themselves into Unions and thus to create the larger areas which experience had shown to be necessary. But little improvement in administration resulted from the Act. It was optional and less than 1,000 out of the 16,000 parishes in England took advantage of its provisions. Its influence on the principles governing the distribution of poor relief was of much greater consequence. The statute stated in express terms that the able-bodied poor should be supplied with work or maintenance *in their own homes*, thus deliberately sanctioning a wholesale system of outdoor relief. This rule only applied to those parishes which adopted Gilbert's Act, but in 1795 Parliament made the granting of outdoor relief compulsory in all parishes. The policy initiated by the legislature was extended by the independent action of the local authorities. In this same year, 1795, the Berkshire Justices held their famous meeting at Speenhamland and decided to remedy the evil of low wages by the questionable expedient of paying monetary allowances direct to the labourer, the amount to vary with the size of the labourer's family and with the price of bread. This decision was copied by poor law authorities all over England, to such an extent that it acquired the nickname of the ' Speenhamland Act of Parliament '. In the urban parishes, it is true, Speenhamland principles were not regarded with favour. The local administrators of the factory towns were too hard-headed or hard-hearted to encourage a system of doles. But in the villages of England, the granting of allowances became an almost universal practice. The country justices, moved no doubt by the sight of the distress which had overwhelmed the English peasantry after the Enclosure Movement, distributed relief on a lavish scale, often against the wishes and advice of the parish overseers [1] and with practically no attempt to discriminate between genuine and fraudulent applications. It was one of the worst consequences of the allowance system that it introduced a confusion between wages and relief. The labourer came to look to the parish as a matter of course for part of his weekly earnings. Moreover, the distribution of relief was managed so clumsily that the honest independent labourer was practically compelled to go on the rates. His wages were often less than what he could get if he enrolled himself as a pauper, and what was worse, he found his independent position an obstacle to his obtaining employment, farmers preferring to engage paupers where possible, in order to relieve the rates. There was, therefore, every inducement to make him apply to the parish. In this way, the whole agricultural labouring class was slowly becoming pauperized.

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[1] In 1876 the law was immensely simplified by the adoption of three years' residence as a general qualification for obtaining a settlement.

[2] For the eighteenth-century workhouse, see Clapham's *Economic History of Modern Britain*, pp. 351–62. For cases where the workhouse was used as a deterrent, see Webb's 'English Local Government' (*Poor Law History*, Pt. I, pp. 243–45).

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[1] The Act of 1795 had increased the control of the Justices over the overseers.

The gravity of the situation was brought home to contemporaries by the steadily mounting expenditure on poor relief. In 1784 the poor rate worked out at 5*s*. per head of the population; in 1804 at 8*s*. 11*d*.; and in 1818 at 13*s*. 3*d*. This was the peak year when the total expenditure was £7,700,000. The heavy financial cost of the poor law gave point to the criticisms brought against it by the economists. They accused it of encouraging idleness and thriftlessness, of keeping down the general rate of wages (through the allowance system), of enabling employers to transfer part of their wages-bill to the ratepayers, and, above all, of stimulating the growth of population by the regulation which proportioned relief to the size of the pauper's family. This was the feature of the poor law which Malthus singled out for special attack, and the publication of his *Essay on Population* in 1798 did much to enlighten the public on the evil consequences of the allowance system.

So long as the Tories remained in office, no step was taken towards reform, though it was strongly recommended by a parliamentary committee in 1824. The truth is that the country squires who made up the bulk of the Tory party had a better understanding of conditions in rural England than their doctrinaire opponents, and realized that the allowance system or something like it was indispensable if the English peasantry was to pass peacefully through one of the most trying periods in its history. The Enclosure Movement had squeezed the small farmer off the land and sent him to swell the class of landless agricultural labourers. The inevitable result was general distress, low wages, and underemployment. The allowance system kept the labourer from starvation and enabled him to carry on. Its sudden abolition might have the most disastrous consequences, either the wholesale degradation of a social class or the outbreak of a land-war with all the violence with which such wars are invariably accompanied. Canning was voicing the opinion of the average Tory squire when he maintained that the poor law had saved England from Revolution during the period of her life-and-death struggle with Napoleon.

Considerations like these had little weight with the Whigs, who considered they had in the poor law a legitimate field for the exercise of their reforming zeal. Their accession to office was speedily followed by the appointment of a royal commission, whose report forms an epoch in English poor law history. The commissioners were thoroughgoing individualists,[1] and probably all of them agreed with Malthus's assertion that no man 'has a right to subsistence when his labour will not fairly purchase it'. But they were not prepared like him to draw the logical conclusion that the poor law should be abolished altogether. In his Essay, Malthus had suggested legislation, declaring that no child born after a certain prescribed date should ever be entitled to parish assistance. This was further than the commissioners could venture to go. But in their recommendations, they showed the drift of their sympathies by proposing regulations designed to reduce the distribution of poor relief to the barest minimum and to prepare the way for its ultimate extinction. The great principle which the commissioners took as the basis of their report was the principle of 'less eligibility'. The position of the pauper must be made less eligible, or in plain English, more miserable than that of the independent labourer of the lowest class. As a means to this end, the commissioners proposed the total abolition of outdoor relief to the able-bodied and the institution of a severe penitential régime in the workhouse. And, finally, to ensure that the local authorities did their duty, and, at the same time, to establish a certain degree of uniformity in the administration of the law, they recommended the establishment of a central supervising poor law board.

The commissioners were men of ability and their report was a masterly document. Yet they suffered from a certain narrowness of outlook. Their major error was the disproportionate attention which they bestowed on the able-bodied poor to the neglect of other classes of paupers like the aged, the sick and the children,[2] and in regard to the able-bodied poor they failed to realize that they had to deal with a problem not of pauperism in the ordinary sense, but of unemployment, for which their recommendations supplied no cure. To deprive the unemployed labourer of public assistance did nothing to provide him with work.

The issue of the commissioners' report was followed almost immediately by legislation, and in 1834 the Poor Law (Amendment) Act drastically remodelled the system of poor law administration. The parish was retained as the unit for relief, but parishes were now compulsorily grouped in Unions, each of which was to erect a workhouse. The control of poor relief was taken out of the hands of the justices and entrusted to elected guardians, who it was hoped would be less lavish with the ratepayers' money. But lest they should be tempted to imitate the short-sighted generosity of the justices, the Boards of Guardians were placed under the control of a Central Poor Law Commission with extensive powers of inspection and audit. It was on the Commission that Parliament relied for the execution of its policy.

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[1] One of them was a notable exponent of the new political economy, Nassau Senior, professor at Oxford.

[2] In justice to the commissioners, it should be observed that they did not ignore these classes altogether, and they made the very sensible suggestion that, when relieved in the workhouse, each class of paupers should be lodged in a separate building. This recommendation was never carried out. The 'general mixed' workhouse was preferred on grounds of economy.

The most forcible of the new Commissioners [1] was Sir George Nicholls, who in the course of a varied career, first as sea-captain, then as banker, had filled for a time the office of overseer in the little town of Southwell, Nottinghamshire. There he set himself vigorously to reduce the distribution of outdoor relief by the systematic imposition of the 'workhouse test', and with such success that Southwell became the model parish of the poor law reformers. Some idea of Nicholls's methods may be gained from the statement that he made residence in the workhouse 'as disagreeable as was consistent with health'. He was now called on to apply these drastic methods to the country as a whole.

The task proved harder than he or his colleagues anticipated. A premature attempt to abolish outdoor relief in 1835 had to be abandoned as the new workhouses, the bastilles as the poor called them, had not yet been erected in sufficient numbers. Meanwhile, the activities of the commissioners began to arouse strong opposition, especially in the industrial districts of the North. Tory factory reformers and radical Chartists united in denouncing the new poor law. To Oastler the new Act was 'falsehood warring against truth; tyranny against justice; Satan against God'. Fielden obstructed its operation in his own parish and for nearly a generation the Union of Todmorden [2] had no workhouse. Stephens, an ex-Wesleyan minister, and the chief orator of the movement, issued frenzied appeals to the working-classes to resist the institution of the new régime by force. The agitation produced little practical result. Parliament could afford to ignore it, since the lower classes had no votes, and Stephens' bold words were merely empty threats. The Commissioners, however, were so far influenced by the movement that they devoted most of their attention to the rural districts where less opposition was to be encountered, and where also, it is true, the worst abuses in poor law administration were to be found. Here their operations were very successful. By 1847 they could boast that they had extirpated the allowance system from the English countryside and driven the agricultural labouring class off the rates, at what cost in human suffering, the Commissioners did not stop to consider. This was an aspect of the question which did not interest them. Fortunately, the building of railways in the 'thirties and 'forties, the development of mining, and the general industrial expansion of the period, provided fresh outlets for employment which helped to drain off the surplus labour from the rural parishes and tempered the evils of the period of transition. But for these favourable circumstances, the drastic social surgery of the new poor law would almost certainly have failed of its purpose, or in succeeding would have created worse evils than those it sought to cure.

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[1] There were three, often contemptuously referred to as the "Three Bashaws of Somerset House'.

[2] Fielden's cotton mill at Todmorden, Lancashire, was the largest in the kingdom.

In the towns, the Commissioners had to proceed more warily, and their attempts to abolish outdoor relief met with smaller success. To their Outdoor Relief Prohibitory Order of 1844 they had to admit numerous exceptions, and they were forced to make the important concession that in urban parishes even able-bodied poor might draw outdoor relief, provided some form of labour was exacted in return. The total abolition of outdoor relief which was the ideal of the poor law reformers [1] never came within measurable distance of realization. In 1848, after the Commissioners had been at work for thirteen years, only 300,000 of the two million paupers in England were being relieved inside the workhouse. These figures are significant and deserve to be emphasized since they correct a prevailing impression that the Commissioners succeeded in their general purpose of substituting indoor for outdoor relief throughout England. This was only partially true even with regard to the able-bodied poor.

In 1847 the Commission, which had always been regarded as a temporary body instituted for a special purpose, was

[1] 'Supposing a case of outdoor relief,' said the Duke in *Coningsby*. 'I could not suppose anything so absurd,' retorted his son-in-law, an ardent poor law reformer.

abolished and its place was taken by the Poor Law Board, whose President had a seat in Parliament. A very necessary connection was thus established between the legislature and this important branch of public administration. In 1871 the supervision of the poor law was entrusted to the Local Government Board and in 1919 to the new Ministry of Health. The Boards of Guardians survived until 1930, when the Derating Act made the care of the destitute part of the work of the county and borough councils.

After 1850 the main interest in English poor law history lies in the progressive departure which took place from the principles laid down by the Poor Law Commission of 1834. Partly this was because of the sheer impossibility of applying these principles rigidly in an industrialized country exposed to the recurrent evil of unemployment, partly it was the outcome of a spirit of greater compassion and consideration for the poor. The grant of the electoral franchise to the working-classes was also not without its influence. The general result was that in most Unions the principle of 'less eligibility' ceased to be put consistently into operation, except in the case of one class of poor, the vagrants. The principle of national uniformity likewise was seriously impaired through the wilfulness of the local Boards of Guardians, each of which stubbornly insisted on pursuing its own methods and its own policy, despite the pressure exerted by the central supervising authority. Meanwhile, fresh abuses of a different kind from those with which the Commissioners of 1834 had to deal, made their appearance. The social legislation of the late nineteenth and early twentieth centuries created a multiplicity of authorities, old age pensions committees, distress committees, health insurance committees, all engaged in some part of the great work of relieving poverty. The inevitable result was chaos in administration, overlapping and duplication of services, and waste of public money. An important poor law commission appointed in 1905 revealed these and other deficiencies in a report of great value. But while unanimous in exposing the defects of the existing poor law system, the Commissioners were divided on the question of the remedies to be applied. The majority desired to see wider administrative areas and a unified poor law authority. The minority wished to break up the Poor Law and distribute its functions among existing local authorities. On the policy to be adopted in regard to the distribution of relief, there was also a division of opinion. The majority adhered to the time-honoured principle that no person should have a claim for relief until he was actually destitute. The minority advocated the adoption of preventive measures which might save the poor from sinking into destitution. Neither report led to legislation and the question was allowed to slumber for another twenty years. In 1927 the Poor Law Consolidation Act consolidated all the Parliamentary enactments dealing with the Poor Law, but introduced no change of principle. In 1929 the Labour Government promised a measure of more drastic reform. The question must soon engage the attention of Parliament.

It is a very disquieting feature of the social condition of modern England that the expenditure on poor relief is still so large. In 1818 the poor rate was 13*s*. 3*d*. per head of the population. In 1857 it fell to 5*s*. 5*d*. In 1922 it was 22*s*. 2*d*. The nation is spending nearly £150 million in poor relief and 4 per cent. of the population are paupers. Amongst these the number of able-bodied persons drawing outdoor relief is almost as large as that which created so much alarm in 1834 and led to the drastic legislation of that year. These facts appear all the more ominous when we remember that social legislation, through the institution of old age pensions and the establishment of schemes of health and unemployment insurance, has removed numerous classes of poor from the scope of the poor law. It is depressing to have to record that after three centuries of effort, and the application of so many varied policies, the problem of poverty seems as far from solution as ever.

The French poor law system is perhaps the most characteristic illustration of the application of Catholic ideas to the relief of poverty, yet in its origin it bore a considerable resemblance to the poor law of England. During the sixteenth century the legislation of the two countries proceeded on parallel lines. Francis I in 1536 made every parish responsible for its poor and in 1566 the Ordinance of Moulins authorized parish authorities to impose a compulsory poor rate. But there was this difference, that in France the poor law statutes were not carried out. The government took no steps to enforce them and they soon became obsolete. Thus the attempt to establish a *local* system of poor relief broke down entirely, and for such a system France had to wait till the nineteenth century. Prior to this period the poor law system which prevailed was *institutional*, that is to say, it was based mainly on the great hospitals which had survived from the Middle Ages. These hospitals were not meant exclusively for the sick. They served also as hospices or homes of rest for the aged. Their administration was in the hands of the Church, but in the course of the sixteenth century the government introduced a lay element into their governing bodies, and in time the hospitals lost their exclusively religious character. Fresh foundations were actively encouraged by the government, and by way of example, Louis XIV established the famous Hôpital Général at Paris, a huge institution with accommodation for several thousand persons. The efforts of the government were zealously seconded by the labours of private philanthropists, many of them churchmen, amongst whom the name of St. Vincent de Paul is specially worthy of mention. In 1640 he was the means of establishing the well-known Foundling Hospital at Paris. Six years earlier he had rendered an even greater service to charity by creating an order of uncloistered women, devoted to the care of the sick and the poor. These sisters of mercy provided the nursing staffs for the great hospitals, and they have continued to act in this capacity until our own day.

Apart from the encouragement which it gave to the foundation of hospitals, the government's contribution to poor law administration before the Revolution was limited to the issue of a series of repressive laws against vagrancy. Of these the Edict of 1700 may be taken as typical. It forbade public begging, prohibited indiscriminate almsgiving, made provision for the return of wanderers to their homes, and imposed severe penalties on incorrigible vagabonds. In pursuance of this policy, houses of correction were erected, known variously as *maisons de renfermement, de force, de travail, dépôts de mendicité*, etc., in which sturdy vagrants were imprisoned and taught to labour for their livelihood. These measures did little to cure the evils they were designed to remedy. The eighteenth century was a period of acute distress for the lower classes in France. Bad harvests, costly wars, heavy taxation and the extravagance of a corrupt court, all assisted in swelling the volume of poverty. The vagrancy laws aimed at separating the genuine from the undeserving poor, but even had this been possible, the situation would not have been improved, because there was no local system of poor relief by which the honest poor might be assisted. The hospitals, besides being hopelessly inadequate in numbers and resources, were confined mainly to the large towns. Repressive legislation in such cases could do nothing to reduce the evil of vagabondage, and the roads of France continued to be infested by swarms of sturdy vagrants until the close of the *ancien régime*.

The Revolution of 1789 might naturally be expected to mark an epoch in the history of French poor relief, but actually its influence was negligible. The subject came before the revolutionary legislators in the course of their review of all the institutions of the *ancien régime* and they proceeded to draw up schemes of reform which on paper were excellent, but suffered from the serious drawback that they never issued in any practical results. The Constitution of 1793 contained the high-sounding declaration that the provision of work or maintenance was a 'social debt' which society owed to its poorer members, and to give effect to this principle the Convention drew up a grandiose scheme of poor relief. In all towns permanent institutions were to be set up to provide work for the unemployed, while a system of State allowances was instituted for aged and infirm persons. Thereupon, the Convention passed a decree declaring that poverty was abolished and appointing a fête day for the annual celebration of this great event. Very little, however, came of these ambitious projects. The Convention voted some millions of worthless assignats for distribution on the poverty fête day, but this was the full extent to which the new scheme of poor relief was put into operation. Meanwhile the Revolutionary government had confiscated the property of the hospitals, dissolved the order of nursing sisters and closed down the houses of correction. The old system of poor relief was completely swept away, and nothing was put in its place. This was all that the Revolution had accomplished in the domain of the poor law, except to dry up the springs of private charity, which plainly became superfluous now that poverty had been declared abolished by legislative decree.

From this impossible situation the government could find no way of escape, except by retracing its steps. The Directory suspended the sale of lands belonging to the hospitals and in 1800 Napoleon restored to them property out of the public domain worth four million francs a year. The nursing orders were restored and on the summons of the Emperor a general chapter of the sisters of mercy met at Paris in 1807. These measures re-established the institutional organization of poor relief on its former basis. At the same time an attempt was made to institute, practically for the first time in France, a poor law system, resting on localities. In 1796 a new communal organ of poor relief was created, the *bureau de bien-*

faisance. The intention of the legislature was that every commune should have a bureau, but owing to the poverty of most of the communes, it became necessary to relax this rule. For the same reason it was found impracticable to make each bureau or commune entirely responsible for its poor. The new poor law had consequently no obligatory character. It was left to each communal council to decide what classes of poor should be relieved and to what extent. The poor themselves were endowed with no legal claim to relief. This, as already stated, is the fundamental point of difference between the French and the English poor laws. The revenues of the bureau were to be derived from private gifts and endowments, from subsidies granted by the communal councils and from the proceeds of a new poor rate, the *droit des pauvres*, an amusement tax on admission to theatres and other entertainments. The *droit des pauvres* is the only specific poor rate in France and it is one from which rural communes obviously can benefit but little.

Another step taken about this time was the revival of the houses of correction which had been closed down during the Revolution. This was a measure for which Napoleon was chiefly responsible and it was part of his scheme to cope with the great evil of brigandage, inherited by the Empire from the Revolution. It was not, he considered, sufficient to round up and capture the brigands. Means must be devised to train them in habits of industry and fit them to become good citizens. Accordingly, a law of 1808 enjoined the erection in each department of a *dépôt de mendicité* to which vagabonds might be committed for at least a year and taught some useful trade. The downfall of the Empire prevented the complete carrying out of this policy and *dépôts de mendicité* were erected in only a few departments.

These three institutions, the hospital, the *bureau de bienfaisance*, and the *dépôt de mendicité*, are the bases of the modern poor law system of France. Of the three, the *dépôt de mendicité* has least importance. Less than half the departments possess one, and those that exist have for the most part been diverted from their original purpose. They are used as hospitals for the sick or the aged, in order to save the departmental councils the expense of erecting special institutions for these classes of poor. The number of able-bodied vagrants residing in them is small and their period of residence short. Fortunately the problem of vagabondage is no longer so serious as it was in the early nineteenth century, but the absence of disciplinary institutions such as the law of 1808 aimed at creating must be regarded as a serious defect in the French poor law system.

The hospitals and the *bureaux de bienfaisance* roughly divide between them the fields of indoor and outdoor relief, though some of the wealthier hospitals spend a portion of their revenues in relieving the poor in their homes.[1] The number of hospitals is less than 2,000 and over 90 per cent. of the communes of France possess no institution of this kind at all. According to the strict interpretation of the law, the benefits of a hospital are confined to the inhabitants of the commune in which it is situated, but the legislature has been compelled to admit numerous exceptions to this rule. Hospitals fall into three main groups, according as they care only for the sick, for the aged or for aged and sick together.[2] The staffs still consist very largely of nursing sisters whose numbers were augmented by the creation of many new orders during the nineteenth century, notably the Little Sisters of the Poor in 1840, but since the separation of Church and State in 1905, there has been a tendency to introduce lay nurses. The hospital revenues are derived from charitable endowments and contributions, supplemented by grants from the communal councils. Each hospital is governed by a commission, the members of which are nominated in varying proportions by the communal council and the prefect. The mayor of the commune is ex-officio chairman.

Bureaux de bienfaisance exist in only about half of the French communes. Their governing bodies are similar in composition to the administrative commissions of the hospitals, and like them they receive gifts from charitably inclined persons and grants from the communal council, but they have an additional resource in the proceeds of the *droit des pauvres* which they alone are entitled to levy. The relief distributed by the bureaux is exclusively outdoor and generally takes the form of gifts in kind, food, clothing, fuel, etc. The payment of monetary allowances is definitely discouraged. There are wide variations in the amounts spent by different bureaux. In the towns the expenditure may run into millions of francs, in a rural commune it may not exceed a few hundreds. The individual allowances paid do not as a rule err on the side of generosity and require in most cases to be supplemented by help from relatives or from private charity. 'L'assistance publique assiste, elle n'entretient pas' is a well-recognized maxim of French poor law administration.[1] Where no bureau exists, such poor relief as is distributed, usually trifling in amount, is administered by the communal council.

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[1] This practice was permitted by a law of 1851 which authorized hospitals to spend a fifth of their income on outdoor relief. Subsequent legislation has increased the proportion to a fourth, and in some cases a third.

[2] A hospital reserved for the aged is called a hospice; one which admits both sick and aged, a hospital-hospice.

Throughout its history the outstanding feature of the French poor law has been its non-obligatory character, but since the beginning of the nineteenth century important advances have been made towards the adoption of a compulsory system. Four classes of poor have now a legal claim to relief, namely, deserted and orphan children, the insane, the sick, and the aged. The children were the first to be brought within the scope of the compulsory principle. A law of 1811 prescribed the opening in each arrondissement of a hospice for the reception of abandoned children. Wherever possible, the children were afterwards to be boarded out with respectable foster-parents, and the cost of their maintenance was to be met out of an annual subsidy of four million francs from the State. But this sum was never paid, and subsequent financial laws shifted the greater part of the burden on to the departments. Grants-in-aid, however, are made by the State, and the departmental councils have authority to levy contributions from the communes. This was the beginning of a movement for the protection of child life, in which for long France was in advance of all other countries. She had of course a special motive, arising out of the serious depopulation problem with which she was threatened in the nineteenth century.

The next class of poor to be brought under the compulsory principle were the insane. In 1838 the departmental councils were made responsible for their maintenance, and each department was obliged to erect a public asylum or else unite with other departments for this purpose.

Up to this point it might be argued that the optional character of the French poor law system had in no way been impaired. Children and insane persons were *in statu pupillaris,* and their protection by the State, it might be contended, involved no breach of individualist principles. But this argument could not be used in regard to the third class of poor to be given a legal claim to relief—the sick. In 1893 it was made incumbent on the communes to provide maintenance for all their sick poor, either at home or in some appropriate public institution. This law was epoch-making in many ways. It applied to persons who could not be described in any sense as *in statu pupillaris.* It placed the obligation of maintaining them not on the department, but on the commune, and, finally, it did not limit the extent of the obligation by the pecuniary resources at the commune's disposal. On the contrary, the pecuniary resources must be adjusted to the obligation, and if necessary, the commune must raise the sum required by additional taxation. For these reasons the law of 1893 is generally regarded as having fundamentally altered the character of the French poor law system.

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[1] It was also the maxim of the old Scottish poor law. 'In the great majority of our Scottish parishes,' wrote Dr. Chalmers in 1823, 'all which the administrators of the public charity profess to do is to "give in aid". They do not hold themselves responsible for the entire subsistence of any of their paupers'.—Quoted in Clapham, *Economic History of Modern Britain*, pp. 366–7.

In 1905 the compulsory principle received a further extension by the institution of a system of allowances to three classes of poor, the aged (over 70), the infirm, and the incurable, the amounts granted to be fixed by the communal council within the limits of five francs and twenty francs a month. Part of the cost, as in the case of the sick poor, is met by advances from the departments and the State. In 1912 there were 645,000 beneficiaries under this law drawing on an average three shillings a week.

From what has been said, it will be obvious that France possesses in no sense a complete or national system of poor relief. Over nearly half the country no poor relief is distributed at all, and over the remainder the administrative methods of her poor law authorities are marked by a total want of uniformity. Moreover, while the number of beneficiaries is large, the amount of relief granted is small, and has to be supplemented by private charity, which is not altogether a satisfactory situation. In the towns the system works most smoothly and effectively. The sums granted by the municipalities for relief of the poor are adequate, even generous, and the system of administration has been overhauled and improved. In most cases the dualism created by the existence of hospitals and *bureaux de bienfaisance* with separate independent administrations has been got rid of, and the two branches of poor relief have been placed under the control of a single commission. In Paris, this reform was introduced as early as 1849. It might with great advantage be adopted universally.

The share taken by the State in poor law administration is not so great in France as in England, but in three ways it makes important contributions, first by the payment of grants-in-aid to local authorities, second by the direct management of about a dozen large hospitals, and thirdly by the exercise of general control and supervision over the whole poor law system. Since 1828 the State has maintained a general oversight of the doings of the local poor law authorities, and in 1886 this duty was entrusted to a special department of the Ministry of the Interior, *la direction de l'assistance publique*, to which was attached two years later an advisory *conseil supérieur*.

The foundations of the German poor laws were laid by a series of Imperial edicts in 1530, 1548 and 1577, which made each town and commune responsible for its own poor. Over the Protestant part of Germany, this responsibility was accepted—in principle at least—but in Bavaria and the Catholic states no proper system of compulsory poor relief was ever instituted. The same is true of Alsace-Lorraine, where the French optional system was maintained during the fifty years of German rule. Even in Protestant Germany it can hardly be said that any regular system of poor relief existed before the nineteenth century. The economic backwardness of the country, the continual wars by which it was devastated and the absence of political union interposed obstacles to this as to every other branch of social progress. The political disunion of Germany made the question of settlement in particular one of great difficulty and complexity. The country was divided into three hundred independent states, each of which disclaimed all responsibility for the poor of its neighbours, and pitilessly deported any immigrant likely to become an object of poor relief. A small improvement was effected in 1853 by the Eisenach Inter-State Agreement, which stipulated that a destitute person in need of medical attendance should be maintained by the State where he happened to be, until fit to be moved to his domicile. But the obstacles to freedom of movement caused by the political heterogeneity of Germany were not finally got rid of until the establishment of complete national unity under the Empire. Meanwhile, within each state, the same conditions were reproduced on a smaller scale. No commune would accept responsibility for other than its own poor, and new-comers were refused permission to settle lest they should require at some time to be supported from the public funds. A still more unwarrantable restriction was the denial to poor persons of the right to marry without the consent of the communal authorities. To such lengths did the communes go in their anxiety to escape the burden of poor relief that the conception of State citizenship was thrust into the background and a man's legal position came to depend on his ability to claim membership of the lowest of the hierarchy of administrative units.

The first country to break through these antiquated and oppressive regulations was Prussia. In 1840 settlement in a Prussian commune was made easier by the provision that no new-comer should be expelled unless he had been in receipt of poor relief in his previous commune. Further, the right of expulsion required to be exercised within a year of the new-comer's arrival. At the same time poor persons obtained the right to marry without the consent of the communal authorities. In order to assist the communes in supporting the additional burden which these regulations might be expected to impose on them, the authorities of larger administrative areas, like the Circles and the Provinces, were required to provide institutions for special classes of poor, such as the sick, the blind, and incorrigible vagrants. They were likewise made responsible for the relief of any pauper who could not establish a claim to a settlement in a commune. Subsequently, by a law of 1840, the period of residence required for the acquirement of a settlement was fixed at one year, with a police certificate of character, and three years without.

On the foundation of the Empire, the principles of the Prussian poor law were incorporated in the Imperial Code. Previously, a law of 1867, applying to the territories of the North German Confederation, had given every German the right to settle where he pleased within the German dominions, and had deprived communes of the power to refuse a settlement unless in the case of a person actually destitute. These provisions were repeated in the later imperial law of 1870, which conferred a settlement on every person over twenty-four years of age,[1] who had resided for two years continuously in a commune. From this law both Bavaria and Alsace-Lorraine were exempted, and, so far as this question was concerned, their relation to the other states of the Empire remained that of foreign countries. Alsace-Lorraine retained the optional

[1] Since 1894, over 18 years of age.

poor law which it had possessed when it formed part of French territory, while Bavaria continued strictly to enforce the old restrictive regulations concerning settlement.

Other provisions of this same law of 1870 laid down general principles for the administration of poor relief throughout Germany, the application of these principles being left to the state governments concerned. Two kinds of poor law authority were created, (*a*) the local unions (*ortsarmenverbände*) and (*b*) the district unions (*landarmenverbände*). The local unions comprise one or more communes, the district unions several local unions, though in some cases the area covered by a district union may extend to a province or even to a whole state. The duty of relieving poverty rests primarily with the local union. It is bound to assist all destitute persons within its area, but any pauper who has not acquired a proper settlement may be removed at the earliest moment to his own union, against which a claim may be made for his maintenance up to date. Paupers who have acquired no settlement in a local union become chargeable to the district union, which is also responsible for the maintenance of central poor law institutions such as hospitals, orphanages, and asylums. The composition of the governing bodies of the unions, their financial relations to one another, and the sources from which they derive their revenue are determined by supplementary laws issued by the various state governments. As there is no uniformity in regard to the arrangements adopted, it is impossible to give a general description of the administration of poor relief in Germany without going into great detail. It must suffice to refer to one local system which deserves special mention both on account of the reputation it has acquired and the influence it has had on poor law administration, not in Germany only but in Europe and America.

This is the Elberfeld system. Elberfeld is a town in the Prussian Rhineland with a population of nearly 200,000. About 1800 the municipality carried through a reorganization of its system of poor relief. Six overseers, later increased to twelve, were appointed to collect voluntary subscriptions and to assist destitute persons. Though the subscriptions were purely voluntary and the overseers had no other source of revenue, yet the funds in their hands were so ample that they were able to build a workhouse, in which employment was provided for the able-bodied poor. In the administration of outdoor relief, the overseers were assisted by visitors who supplied written reports on the cases under consideration.

For this purpose the town was divided into districts and each visitor was given a certain number of poor homes to visit.

This voluntary system was continued till 1843, any deficit in poor relief expenditure being made good by the municipality. But thereafter it was found necessary to resort to a compulsory poor rate. Hardly had this change taken place when the system was subjected to a strain under which it nearly collapsed. The potato famine of 1845 initiated a period of prolonged industrial depression, and cholera came to aggravate the distress. Flooded with applications for relief, the municipality seriously considered the proposal to abandon the care of the poor entirely to the Church. But at this critical juncture a vigorous poor law reformer appeared in the person of Daniel von der Heydt, through whose energy and enthusiasm the situation was saved, and the Elberfeld system, as we know it, brought into existence.

The reorganization for which Heydt was responsible was carried through in 1854. All the features of the older system which had proved their value were retained. The town, as before, was divided into districts and the districts, in their turn, into sections. Each district was placed under the charge of an overseer, and one visitor was assigned to each section. Both these offices were made compulsory and were unpaid.[1] General supervision and control were exercised by a council of nine members chosen by the municipality. These are still the main features of the organization as it exists to-day. The procedure in granting relief is as follows: When an application is received, it is handed to the appropriate visitor for investigation. He visits the family and presents a written report which is considered by the district council at its fortnightly meeting. The council decides whether relief shall be granted, subject to ratification of the decision by the central council which also meets fortnightly. Relief is never granted for more than two weeks at a time, so that every case comes up periodically for review. It is the visitor's duty to see that the relief is properly spent and that the recipient is not concealing any unreported source of income. Any change in his financial condition must at once be reported to the district council, which proceeds to revise the scale of relief. The visitor is further expected to act as a friendly adviser to the families he visits and to try and restore their self-respect and economic independence. Great importance is attached to this side of the visitor's work, and in order that he may perform it properly, the number of families placed in his charge is small, generally not more than four. Even with this restriction, the work of visitation is heavy, absorbing on an average at least one or two hours per day, and it says much for the public spirit of the visitors of Elberfeld, business and professional men for the most part, that they are prepared to make this heavy sacrifice of their time. The duties would be even more onerous but for the fact that Elberfeld is a town of moderate size in which the rich and poor quarters lie intermingled. Regarding relief, it is mostly outdoor, and payable in money according to a fixed scale, but a certain amount of indoor relief is provided in a poorhouse and various hospital shelters for the homeless. The workhouse test is not in use in Elberfeld, nor indeed is it generally applied in Germany, though there are penal establishments known as workhouses for the detention of vagrants and idle persons of bad character.

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[1] This is the general rule still with regard to most poor law offices in Germany.

The influence of the Elberfeld system on the general development of poor law policy has been remarkable. There are few important towns in Germany which have not modelled their poor relief systems on its pattern, while beyond the frontiers of Germany, more especially in Austria and Switzerland, its methods have been widely copied. Moreover, its influence has intruded into the domain of private charity, to which its procedure has been found peculiarly well adapted, and the chief features of the scheme, decentralization, individual consideration of cases, written reports, etc., have been incorporated in the constitutions of most of the great charitable organizations of England and America, such as the German Union against Poverty and the British and American Charity Organization Societies.

CHAPTER XIV

SOCIAL INSURANCE

SOCIAL insurance is a collective or co-operative method of protecting individuals against the chief risks of life. It is grounded on the well-known fact that, while with reference to individuals the accidents of life are incalculable, in relation to groups they occur with remarkable regularity and may be foreseen and measured with a fair degree of exactitude. Thus, though it is impossible to predict which individual member of a population will die within the next five years, the proportion of the population which will die within that period can be stated with approximate accuracy. This is the principle on which the whole work of insurance is based. The possibility of foretelling and measuring events with regard to *groups* enables the risks to which *individuals* are exposed to be spread over a large number of persons, each of whom bears only a small proportion of the loss which falls in the first instance on a few.[1]

In its application, the term ‘ social insurance ’ is generally restricted to schemes designed to protect the working-classes against risks to which they are particularly exposed—industrial accidents, sickness, unemployment and old age. Such protection may be given through voluntary associations, or by the intervention of the State. The voluntary form of social insurance was naturally the first to develop.

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[1] In a fire insurance society, for example, a number of persons build up by small contributions a fund to indemnify themselves against loss by fire. The number of houses belonging to the group which are likely to be burnt down, in normal circumstances, in a year, can be estimated within narrow limits and the contributions are fixed accordingly. The member whose house is destroyed is compensated in full from the fire fund, and thus the loss, which, falling on him alone, would be crushing, is shared amongst all the members, so that its weight is scarcely felt. Those members whose property escapes destruction are not without an equivalent for their contributions. They enjoy the inestimable benefit of security arising from the knowledge that, should loss overtake them, it will be made good out of the common fund. For this advantage the amount of their contributions is a very small price to pay. It may be worth while noting that insurance makes good losses ; it does not prevent them. The individual is compensated, but the compensation has to be provided by the members of his insurance group. In other words, insurance protects the *individual* against loss, but not *society*.

In England the friendly society movement has a long and honourable history, dating back to the eighteenth century, and even earlier. The first English friendly societies were small sick and burial clubs, which were often sadly mismanaged. At a later stage county clubs made their appearance, covering a wider area and providing better safeguards for honest and trustworthy administration, but failing to inspire the local interest and patriotism which were often embodied in the smaller societies. The difficulty of combining these separate advantages was solved in the early nineteenth century by the establishment of affiliated societies or orders, which were federations of local lodges, covering a wide area, sometimes extending to the whole kingdom. Prominent examples were the Oddfellows, the Foresters, the Shepherds, the Druids and many more. The organization of these societies owed much to freemasonry: masonic ritual played a prominent part in the conduct of their business. The officials wore gaily-coloured scarfs and regalias; signs and secret passwords were used; new members were admitted after an elaborate initiation ceremony. But all this mummery was perfectly harmless and helped to diversify what might otherwise have been rather tedious proceedings.[1] In such societies as the Rechabites, the Sons of Temperance, and the Good Templars, mutual thrift made an appropriate alliance with temperance propaganda, while, after 1850, the trade unions, formed on the pattern of the 'New Model', made the distribution of sick and unemployment benefits an important branch of their activities. The system of administration in the affiliated societies showed a steady improvement over that of the village clubs, which must in part be attributed to the general advance of actuarial science. The chief error committed by the managers of the smaller societies was the limited view they took of their liabilities. They set off by fixing a low subscription sufficient to meet the needs of the current year, in ignorance of the fact that as time passed and their members grew older and more exposed to sickness, their liabilities must necessarily increase. The larger societies avoided this mistake. At regular intervals they made a general review of their assets and liabilities, and fixed subscription rates for a period of years. This method of periodical valuation is indispensable for the proper working of social insurance, and its general adoption by the affiliated orders has put an end to the grave scandals which at one time brought so much disrepute upon the friendly society movement. As late as 1882 there were nearly 4,000 paupers in British workhouses who had been brought there through the failure of friendly societies in which they were interested.

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[1] In some of the women's friendly societies this love of acting was pushed to the verge of absurdity. The applicant for membership of the Female Druids was bidden to plunge down a (pasteboard) precipice 'at the bottom of which a double row of sharp steel spikes were visible, . . . but before she arrived at the bottom of the dark gulf, the scenic machinery had revolved and she alighted on a piece of velvet herbage beneath which was concealed a bed of the softest down. Darkness gave place to light, and all around her was a fairy scene of green fields, shady trees, and bubbling fountains. Essences were at hand should she be prosaic enough to faint'.—See J. F. Wilkinson, *Mutual Thrift*, p. 130.

In general, the attitude of the British legislature towards the friendly society movement has been a benevolent one, and it has refrained from interfering unduly in the internal management of the societies. Its influence in promoting their good management has, therefore, been less than is sometimes supposed. The earliest friendly society statute was Rose's Act of 1793. It conferred exemption from certain taxes, as well as other privileges, on societies which submitted their rules for approval to the local magistrates. In 1844 the place of the magistrates was taken by a special Registrar of Friendly Societies. A later statute of 1875, passed after an exhaustive review of the whole question by a Royal Commission, laid down clearly the conditions required for registration and the privileges attaching to it. Registration has always been permissive, not compulsory. Registered societies enjoy the right to hold land, to invest funds with the National Debt Commissioners and to proceed summarily against defaulting officials.[1] In return, they must furnish the Registrar with annual returns and quinquennial valuations, besides complying with certain conditions in regard to administration. Registration ensures a certain amount of publicity and regularity in the conduct of a society's affairs, but it is no guarantee of its solvency. Indeed, one registrar even stated that he considered he had no authority to publish information regarding the bankrupt condition of a society. Happily, in recent years at least, mismanagement of societies has become rare.

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[1] It was this last privilege of which the trade unions were deprived by the judgment in Hornby *v.* Close, 1867. See p. 145.

The Act of 1875 is still the basis of friendly society law, though it has been amended in certain particulars by subsequent statutes.

The most important event in the later history of the English friendly societies was the establishment of State systems of health and unemployment insurance in 1911. It was thought at first that the competition of the State might impair the usefulness and influence of the voluntary societies, but this anticipation has not been fulfilled. Since the war the progress of the mutual thrift movement has been continuous. The annual returns of the Registrar record a steady increase, both in the membership and funds of the British friendly societies.[1]

An institution somewhat akin to the friendly society is the building society, of which the earliest example occurred at Birmingham in 1781. The name has ceased to be descriptive, for the building societies no longer undertake actual building operations. They have developed into credit institutions or popular banks, which collect capital in small sums from depositors and shareholders, but a link with their origin remains in the purpose for which they lend out their funds, namely, to purchase houses or to clear off mortgages. By 1836 the building societies had made sufficient progress to necessitate special legislation, and the friendly society regulations were extended to them. Since then their career has on the whole been prosperous, despite one or two disasters such as the failure of the notorious Liberator Society in 1892 and of the Birkbeck Bank in 1911. These failures merely emphasized the danger of any departure from the recognized methods of the building society movement. After the war the building societies did invaluable work in meeting the housing shortage. In 1926, there were 1,086 societies in Great Britain with a membership of 1,257,400 and assets totalling £193,856,000. The British type of institution has spread to the Dominions and to America, but on the Continent it is practically unknown. There, institutions for house purchase are almost invariably subsidized from the public funds.[2]

In France the Revolution swept away the medieval institutions for mutual thrift, such as the gilds, without attempting to put anything in their place, and the Loi Chapelier against

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[1] The following are typical figures taken from the Registrar's Annual Reports:

	Societies.	Membership.	Funds.
1916 . .	24,677	6,535,562	£57,352,964
1926 . .	21,425	7,281,485	£91,191,983

[2] Bellman, *The Building Society Movement.*

associations placed difficulties in the way of voluntary friendly societies. Still, the authorities were prepared to connive at the existence of such societies, provided they had no political connections and were not trade unions in disguise. From the later Napoleonic period onwards, *sociétés de secours mutuel*, to give them their customary French name, were regularly founded. In 1848 there were 250 of them in Paris alone, with 24,000 members. These early societies were seldom successful, partly owing to bad management, partly because of their ambitious desire to provide more benefits than their funds could afford. Not content with paying sick and funeral benefit, they wished to provide old age pensions as well. The government was compelled to intervene, and in 1850 friendly societies were definitely forbidden by law to include old age pensions among their benefits. This same law of 1850 sanctioned the registration of societies by decree of the Council of State, but this was a cumbrous method, which was seldom taken advantage of. A subsequent law of 1852 instituted a simpler procedure. Societies might be ‘approved’ by the prefect of the department. ‘Approved’ societies obtained not merely legal recognition, but exemption from certain taxes and the right to be provided with free office accommodation and stationery by the communal authorities. Meanwhile, to assist individuals in making provision for their old age, now that the friendly societies were debarred from doing this work, the State had established in 1850 a *Caisse de retraites pour la vieillesse*. Contributors to the *Caisse* received annuities on reaching a certain age. In calculating the amount of the pensions, allowance was made for the rate of mortality, a provision which slightly increased the annuities payable and gave the *Caisse* the character of an insurance institution.

In 1856 the legal ban on the granting of old age pensions by friendly societies was removed, and the societies were now allowed to deposit funds in a special *Caisse des dépôts*, from which they might afterwards be withdrawn and used to purchase annuities for members from the *Caisse des retraites*. Societies which applied part of their resources to this purpose received a subsidy from the State payable in the first instance from the confiscated property of the exiled Louis Philippe. In 1898 the societies were liberated from their obligation to use the State *caisses* and were authorized to establish private *caisses* of their own. The law which made this concession also relaxed the conditions necessary for registration and allowed the societies a greater degree of autonomy in the management of their affairs. A ministerial decree of November, 1918, made provision for the repayment by the State of a certain percentage of the expenditure of societies.[1]

One notable characteristic of French friendly societies, which they share with both the trade union and the co-operative societies, is the smallness of their membership and the meagreness of their financial resources. Since 1900 attempts have been made to remedy these weaknesses by the formation of federations or unions, of which there is now one for almost every department. The unions themselves are united in a National Federation which dates from 1902. Roughly, there are 20,000 friendly societies in France with about 5 million members, but of the latter it should be noted, half a million are wealthy honorary members, who subscribe to the societies from purely philanthropic motives. Only about two-thirds of the income of the French friendly societies comes from the ordinary members. The rest is provided by honorary members and the State. For a movement that aims at fostering self-reliance and independence, this can hardly be described as a satisfactory state of affairs.

Germany, from a very early period, had a series of thrift institutions which were originally voluntary, but to which the State latterly gave a semi-compulsory character. Prominent among these were the *Knappschaftkassen*, or societies of miners, which existed in the Prussian mines from the sixteenth century. These associations acted as ordinary friendly societies, but they were chiefly remarkable for the customary claim which they succeeded in establishing against the employers, that members should receive free medical attendance (in time of sickness) and draw wages for a period of one or two months. The masters frequently sought to evade these onerous liabilities, but on every occasion the Prussian government intervened and insisted on the observance of the customary obligations. About 1840, despite the strong opposition of the mineowners, the *kassen* were introduced into the Rhenish provinces which Prussia had acquired in 1814, and in 1854 the whole system was legalized and regularized by a statute for which Heydt, the re-creator of the Elberfeld system, was chiefly responsible. Under this law, mines, blast-furnaces and salt-works were obliged to form themselves into groups and to found regional *kassen* managed by joint committees of masters and workmen. The funds for the payment of sick and funeral benefit were derived from contributions by employers and employed in equal proportions. The *kasse* was specifically a Prussian institution, but between 1860 and 1890 it was introduced by legislation into the other German states, and by the close of the century there were 73 *kassen* in Germany with 613,000 members. Another thrift institution which survived from medieval times was the gild. Though in many ways an obsolete form of association, the Prussian legislature took steps in 1845 to revive its compulsory character. The communal authorities received power to compel masters, journeymen and factory operatives to become gildsmen. Four years later these powers were enlarged. Masters might now be compelled to pay subscriptions equal to half those paid by their workmen and to assume responsibility for the collection of the latter's share. As the communal authorities showed reluctance to act on these statutes, Heydt by the law of 1854 conferred similar power on the district authorities as well. In consequence of this legislation, a large number of compulsory societies were founded in Prussia, during the 'fifties and 'sixties, and as other states passed legislation of a similar kind the number of the compulsory gilds had grown by the time the Empire was founded to 10,000 with a membership of 2 millions.

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[1] On sickness, 12 per cent.; on maternity benefit, 25 per cent.; on funeral benefit, 6 per cent.; and on propaganda, 4 per cent.

Meanwhile, voluntary friendly societies on the English model had been founded as early as the 'forties and received the support of the economic liberals who strongly objected to the compulsory character of the *kassen* and the gilds. The trade unions founded by the liberals Hirsch and Dunker acted also as friendly societies, and attempts were made to establish similar associations in connection with the socialist unions, though in this case the police interposed obstacles. The liberals never ceased to agitate in favour of freedom, and at last, in 1869, their perseverance had its reward. An amendment inserted in the Industrial Code of that year exempted members of voluntary friendly societies from the necessity of joining the compulsory gilds. This at once raised the question as to which voluntary societies should be recognized for this purpose, and to settle it the Reichstag passed the important law of 1876, laying down the conditions with which societies must comply in order to secure legal recognition, and at the same time authorizing a degree of official interference in their internal management, which has no parallel in either England or France. The law of 1876 was a bitter disappointment to the liberals. They had hoped that it would give a powerful stimulus to the creation of voluntary societies and that the compulsory societies would gradually decline in numbers and importance. But contrary to expectations the compulsory societies more than held their own, and the anomalous situation thus created, with free and compulsory societies existing side by side, provided a powerful argument for the introduction of a universal compulsory system of social insurance in the 'eighties.

In the provision of social insurance through the agency of the State, the country which took the lead in Europe was Germany. As we have just seen, the comparative failure of the liberal plan for the promotion of voluntary insurance through friendly societies strengthened the demand for a universal compulsory scheme. This demand was energetically supported by the group of economists known as the 'Socialists of the Chair', a name which is explained by the fact that most of them were university professors. The majority of the group were adherents of the new historical school of political economy in Germany, and amongst their number were such distinguished figures as Roscher, Wagner, Schmoller and Held. They disclaimed, it is true, the title of socialists, but they strongly criticized the doctrine of *laissez-faire* or Smithianismus as they nicknamed it, and advocated numerous State measures of social reform. Amongst these, the institution of a compulsory scheme of social insurance occupied a prominent place.

During the 'seventies, the political situation was not favourable to the realization of such views. Bismarck depended on the liberals for his majority in the Reichstag, and as long as this alliance lasted, the government dared not take any step in the direction of State socialism. But by 1880 the alliance was at an end. Bismarck now relied for parliamentary support on a coalition of conservatives and clericals, which left him free to take an unbiased view of the proposals of the historical economists. His quarrel with the socialists and the passage of the repressive anti-socialist law in the previous year gave him an additional motive to consider favourably the adoption of a progressive social policy. It might enable him to outbid the socialists and to convince the workman that the State cared as much for his welfare as for that of his employer. Such a step would involve no departure from the customary lines of Prussian policy. 'It is the tradition of the dynasty which I serve,' said Bismarck, 'that it takes the part of the weak in the economic struggle,' and he quoted with approval the saying of Frederick the Great that 'it is the business of a sovereign, great or small, to relieve human misery.' To the doctrinaire liberals, who attacked his schemes as disguised socialism, he retorted that all the principles to which they objected were already embodied and sanctioned by the State in the existing poor law.

The result of Bismarck's change of attitude was the establishment of a great tripartite scheme of social insurance against sickness, accident and old age. Unemployment insurance was not included, and it was not till after the war, and until other countries, notably Great Britain, had shown the way, that the German legislature addressed itself to this difficult problem. It is the opinion of many authorities that but for the forceful personality and the great political reputation of Bismarck, the German social insurance scheme would never have survived the opposition which it encountered from so many different quarters. This is one reason for the haste with which it was put through. The reformers felt that if social insurance were not established in Bismarck's lifetime, its institution might be delayed for a generation, and they could not afford to wait. A result of this haste was that the scheme as actually adopted contained numerous deficiencies, which might have been avoided by more mature and considered deliberation.

The first of the great insurance laws was passed in 1883. It set up a system of sick insurance based on the joint contributions of employers and workmen. Bismarck had wished the State also to contribute, but it proved impossible to overcome the opposition of the Reichstag to this proposal. Sick insurance was made compulsory on all industrial workers earning less than 2,000 marks (£100) a year. The inclusion within the scheme of other classes, such as agricultural labourers, was made dependent on the decision of the local or federal authorities. These were workers which it was not thought advisable to include straight away, though it was hoped they might be brought in gradually. By an amendment to the law in 1892, a third class of voluntary insured persons was created, comprising workers with incomes above 2,000 marks, but less than 4,000 marks a year.

In the administration of the scheme, full use was made of the friendly societies. A workman could insure through a compulsory or a free friendly society, or through a miners' *kasse*. Persons who did not choose to insure through any of these organizations were obliged to join a special society created in each district by the communal authorities. In this case the benefits received were smaller, but so also were the subscriptions. Members of communal societies paid a weekly subscription equal to not more than 2 per cent. of their wages. In the case of compulsory friendly societies, the maximum rate was 3 per cent., while in regard to free friendly societies no limit was imposed. The payments made by employers varied with the different associations, but were normally equal to half the worker's contribution. The benefits payable included free medical attendance and medicine during illness, with sick pay from the fourth day, during a maximum period of thirteen weeks a year. In 1904 this maximum period was extended to twenty-six weeks. Normally, the rate of sick pay amounted to half the wage of the insured person. The administration of the different local insurance funds was placed in the hands of joint committees of workmen and employers, represented in proportion to their contributions, i.e. in the ratio of two-thirds to one-third, except the funds of the communal societies, which were managed by the communal authorities.

In 1911 a number of important changes were made in the scheme by the Insurance Consolidated Statute of that year, amongst which may be mentioned the extension of democratic control to the communal funds, and the introduction of a new method of calculating subscriptions, based on average group wage-rates. In the same year a special scheme of sickness insurance was established for salaried workers earning less than 5,000 marks (£250) a year.[1]

Down to the war, the sick insurance scheme enjoyed great prosperity. By 1914 it covered nearly 17 million workers and had accumulated reserves amounting to 306 million marks. The almost total destruction of these reserves was one of the unfortunate consequences of the inflation period. Since the stabilization of the mark, attempts have been made with some success to reconstitute these funds, and by 1925 they stood at the respectable figure of 105 million marks. The scheme[2] in that year covered 20 million persons with a total income of 1,450 million marks, all of which, except a grant of 20 millions by the State for maternity benefit, was contributed by the insured persons and the employers. Nearly 3 million persons were included in the scheme for salaried employees.

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[1] The salary limit is now fixed periodically by the Ministry of Labour.

[2] It is now regulated by a new Consolidating Act passed in 1924.

The second of the great social laws passed by Bismarck dealt with accident insurance. This was a subject which had already received some attention from the legislature. Under the old Roman law which prevailed over the greater part of Germany, a workman could not claim compensation for an industrial accident, unless he could prove that it was due to the direct negligence of his employer. Prussia was the first German state to make an inroad on this principle. In 1838 an employers' liability law greatly extended the responsibility of railway companies in regard to accidents to their employees. Then in 1871, a year notable for a series of grave mining disasters, the question came up again in the Reichstag. The liberals, who saw an opportunity of winning popularity with the working-classes without the necessity of doing violence to their *laissez-faire* sentiments, were specially pertinacious in pressing this question on the attention of the government. The result was the passage of an imperial employers' liability law, applying to railways, factories, mines and quarries. Compensation now became payable for all accidents except those which were the result of the inexcusable negligence of the victim.

The new law proved very profitable to the private insurance companies, which undertook to protect employers against this particular risk, and by their activities greatly facilitated the payment of compensation. But many small masters did not insure, and their employees had often great difficulty in obtaining the damages to which they were entitled. This was the most serious omission in the law of 1871, and it provided an unanswerable argument for the institution of a universal compulsory scheme of accident insurance.

Over this question Bismarck found himself involved in a long controversy with the Reichstag, in which, in the end, he failed to carry his main point. His proposal was for the establishment of a special government department with which all employers should be obliged to insure. The private insurance companies fought hard to maintain the lucrative branch of business which the law of 1871 had placed in their hands, and the liberals gave them unwavering support. In the end Bismarck had to compromise. By a law of 1884 the work of accident insurance was entrusted to professional associations of employers, supervised by an imperial insurance office. Each association was authorized to draw up a separate insurance scheme of its own, and received power to make rules binding on its members for the prevention of accidents.

(It was these regulations which Bismarck hoped might make a State system of factory inspection unnecessary.) As the funds for this form of insurance came entirely from the employers, the workers were given no share in their administration. A proposal for workers' representation was indeed made, while the law was under discussion, but was dropped in view of the opposition of the employers.

Compensation is now paid in all cases in which the accident is not due to the deliberate intention of the victim. In the case of a fatal accident, a lump sum equal to half the annual wage is paid at once with the addition of allowances to dependents up to 60 per cent. of the wage. If the victim is disabled for life, he receives a pension equal to two-thirds of his wage. Correspondingly smaller pensions are paid for lesser injuries. Disputes are settled before a tribunal of arbiters with a right of appeal to the imperial insurance office.

The law of 1884 applied to only about half a dozen trades, but subsequently it was extended to cover nearly every branch of industry, commerce and agriculture. In 1925 the total of insured persons numbered 23 millions, and the law was administered through 66 industrial and 45 agricultural associations, in addition to 500 communal and State undertakings, which acted as their own insurers.

The insurance law against invalidity and old age, passed in 1889, was the third in Bismarck's great series. This form of insurance was made obligatory on all workers earning less than 2,000 marks a year, and the scheme was based on contributions payable in equal proportions by employers and workmen, but in this case the State undertook to make a yearly addition of 50 marks to every pension.[1] Contributions were liable to revision every ten years, so that the scheme might be maintained on a sound actuarial basis. Originally the weekly rates varied from 1⅓*d.* to 4¼*d.* Subsequently they were substantially raised, and in 1927 the average rate was 90 pfennig (roughly 9*d.*). The employer normally pays half. Pensions are payable at 70, in proportion to the total number of contributions made by the insured person. Invalidity pensions are paid on the same basis, where ill-health leads to permanent incapacity to work. Since 1912, survivor and dependents' pensions have been added.

The question of the administration of the pensions scheme gave rise to some difficulty. The first proposal was to make use of the employers' insurance associations, but this suggestion was distasteful to both employers and employees; to employees because they had no representation on the governing bodies of the associations, and to employers because they feared such a step might make workers' representation inevitable. In the end it was found necessary to create special institutions to work the scheme. Pensions boards to the number of forty were set up, the majority being district boards, and the remainder special boards for particular industries like the railways and the mines. This arrangement had the advantage of decentralizing administration, but it was not without its inconveniences. One of these was the great variety which soon appeared in the financial strength of the different boards. To introduce some uniformity it was found necessary in 1899 to make part of the expenditure a general charge. The proposal to vary contributions and pensions according to the financial resources of the individual boards has hitherto met with little support. It is felt that these at least must be kept uniform throughout the empire.

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[1] Since the war the imperial contribution has been raised to 72 marks.

The Pensions Boards are managed by joint committees of employers, workers and State representatives, subject to the control of the central insurance office. There are now 35 boards, comprising 29 district boards and 6 special boards for particular trades. The number of persons insured under this scheme was estimated, in 1925, at 17½ millions.

Unemployment insurance, as already mentioned, came late in Germany. Bismarck made no attempt to introduce a scheme of this kind and his successors had not the courage or the ability to remedy the omission. After the war, the policy of currency inflation saved Germany from the trade depression which overtook most other European countries in 1921, so that there was no urgent need for unemployment insurance. After the stabilization of the mark removed this artificial protection and restored normal conditions, the burden of unemployment compelled the legislature to turn its attention to this important task. In 1927, after several years of preparatory discussion and experiment,[1] an unemployment insurance scheme was launched. It applied to manual workers with less than 3,600 marks a year, and to salaried employees with less than 6,000 marks. The scheme is estimated to cover about 16 million persons altogether. Contributions are limited to 3 per cent. of the workers' basic wage and are payable by employers and workers jointly.

[1] A provisional compulsory scheme was established in 1924.

Contributors are divided into classes according to their basic wage, paying proportional subscriptions and receiving corresponding benefits. The unemployed allowance, including dependents' charges, varies from 60 to 80 per cent. of the weekly wage. It is paid normally for 26 weeks, but in exceptional cases may be paid for 39 weeks. In periods of prolonged unemployment, a special system of emergency allowances may be instituted. In such cases the cost is met in full by the public authorities,[1] but normally the scheme is financed by the joint contributions of workers and employers. An important provision is that which deprives an insured person of the right to refuse work outside his own occupation after he has drawn nine weeks' continuous benefit. The scheme is administered through local employment exchanges governed by joint committees of workers, employers and State representatives. Above the local exchanges, there is a central federal exchange, and a central equivalent fund is maintained to balance deficits in the district funds.

The establishment of a State system of social insurance in Great Britain is of comparatively recent date. The first step in this direction was taken when a scheme of old age pensions was set up in 1908. The feasibility of such a scheme had long been a subject of public discussion. Nearly forty years before, Canon Blackley, a prominent social reformer of the time, had proposed an arrangement by which all young persons between the ages of 18 and 21 should be obliged to set aside a sum sufficient to provide them with a pension at a certain age. The idea was to compel the worker to provide for his old age before marriage and the care of a family put it out of his power to do so. Blackley's scheme was well-meant but, for obvious reasons, impracticable. To provide a reasonable pension within the space of three years would require contributions greater than even a celibate workman could afford to make, and they would be called for just at the time when the inducement to make sacrifices was weakest. The average young person of twenty is not troubling himself very much as to what will happen to him when he reaches the age of seventy, nor is he likely to forgo present enjoyment for the prospect of a maintenance at that distant period.

In the early 'nineties public discussion of the subject was resumed when the famous social investigator, Charles Booth, published proposals for a non-contributory scheme of pensions.

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[1] In the proportion of four-fifths by the federal authorities and one-fifth by the communal.

And when, a little later, Mr. Joseph Chamberlain issued a draft of a contributory scheme, the question was regarded as having definitely entered within the sphere of practical politics. In 1895 a Unionist Government was formed with Mr. Chamberlain as a prominent member, and it was confidently expected that an old age pensions bill would be introduced during its tenure of office. But, though the subject was considered by various parliamentary committees, the new government took no definite action, and it was not till 1908 that an old age pensions measure was placed on the statute book. The new scheme was established on a non-contributory basis. Every person of 70 years of age and over became entitled to a pension of 5*s*. a week, subject to a means limit of £31 10*s*. a year. After the war, the weekly pension was raised to 10*s*. and the means limit to £50, while blind persons became eligible for their pension at the age of 50.

In one sense, it might be argued that the foregoing scheme does not fall within the scope of social insurance, since it is non-contributory, but this objection, if valid, does not apply to the next great scheme to be adopted. In 1911 the National Health Insurance Act made sick insurance compulsory on all manual workers between the ages of 16 and 70,[1] and on non-manual workers earning less than £160 a year. The cost of the scheme was shared between employers, employees and the State. The weekly contribution for a male worker was fixed at 4*d*., and for a female worker at 3*d*., the employer paying 3*d*. in each case. The workers' contributions were collected by the employer and were made by means of special stamps affixed to a card. The State bore two-ninths of the cost of the scheme. (One-fourth in the case of women workers.) The benefits consisted of free medical attendance and medicine during sickness, with a weekly payment of 10*s*. in the case of men and 7*s*. 6*d*. in the case of women up to a maximum of twenty-six weeks a year. After the twenty-sixth week, the insured person became entitled to disablement benefit at the rate of 5*s*. a week. The wife of an insured person received a maternity benefit of 30*s*. for each confinement. The scheme was administered through 'approved' voluntary societies, consisting of friendly societies, trade unions and the special branches of certain industrial insurance companies like the Prudential. Local insurance committees, representative of insured persons and employers, were set up to administer medical benefit and to look after certain minor arrangements under the Act, while for purposes of general supervision, the whole system was placed under the control of the Ministry of Health.

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[1] Since the Widows and Orphans Pensions Act of 1925 came into operation, the age limit has been reduced to 65.

Certain adjustments in the financial arrangements of the scheme were made necessary by the fall in the value of money after the war. The means limit for non-manual workers was raised to £250. The contribution rates, in 1926, became 4½*d.* for men and 4*d.* for women, the employer paying 4½*d.* in each case, while the State's contribution of two-ninths was slightly reduced by the Economy Act of the same year. The weekly benefit rates were raised in 1920 to 15*s.* for men and 12*s.* for women, with disablement benefit at the rate of 7*s.* 6*d.* a week. Maternity benefit is now fixed at £2 in ordinary cases and £4 in the case of a married woman who is herself insured.

The actuarial soundness of the scheme is fully proved by the results of the second quinquennial valuation which took place in 1923.[1] At that date the membership of the approved societies was roughly 15 millions. Against total liabilities of £611,000,000 they had assets of £653,000,000, leaving a clear surplus of £42,000,000. Only 137 out of the 8,000 approved societies and branches failed to show a surplus. This remarkable prosperity stands in striking contrast to the bankrupt condition of the unemployment insurance fund, as we shall have occasion to notice later.

Experience nevertheless has revealed one or two defects in the health insurance scheme. When it was first launched, one of its best features was considered to be the popular administration which it ensured through the approved society system. But in this respect the scheme has only partially fulfilled expectations. Though it is a statutory condition of 'approval' that the affairs of a society should be subject to the absolute control of its members, yet this condition is only properly observed in the case of trade unions and of friendly societies with branches. The centralized friendly societies and the industrial insurance companies, which include nearly half the insured population, have no system of democratic government, except on paper.

The approved society system is also the cause of another defect in the scheme, its want of uniformity. Each society has the right to apply part of its quinquennial surplus in either increasing the cash benefits of its members or in providing them with special kinds of medical treatment, dental, ophthalmic, convalescent hospital, etc. This introduces a disparity which is inconsistent with the national character of the scheme and provokes discontent in those who do not profit by it.

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[1] The first had been made in 1918. The delay was due to the war.

In 1924 the whole question of health insurance was made the subject of an exhaustive inquiry by a Royal Commission which issued two reports in 1926. The report of the minority proposed drastic changes in administration. It condemned the approved society system and proposed that health insurance benefits should be administered through the local authorities. It further refused to accept the principle that future developments in health insurance should be confined within the financial resources of the existing scheme and proposed an extension of benefits, which, if adopted, would greatly add to the total cost. The majority report proceeded on more cautious lines. It recommended the retention of the approved societies, but in order to reduce the disparity in regard to additional benefits, it proposed a partial pooling of surpluses. In view of the heavy burden imposed by the social services on industry, it did not suggest any extension of medical benefits, except such as the financial resources of the actual scheme would allow. No legislation has followed so far from either set of proposals.

The British system of unemployment insurance also dates from 1911. The first scheme adopted was limited in its scope and experimental in its nature. It applied to three trades only, house-building, ship-building and engineering, and its provisions were based very largely on the experience of the trade unions in providing out-of-work pay for their members.[1] Thus it contained many of the devices which the unions had found useful or necessary, such as the institution of a waiting period before benefit became payable, the establishment of a ratio between the amount of benefit and the number of contributions paid, and the imposition of a limit on the period during which benefit could be drawn. The weekly rates of contribution were moderate. An adult paid 2½*d.*, his employer a like amount; while the State bore a fourth of the cost of the scheme. Benefit was paid at the rate of 7*s.* a week to unemployed contributors who could prove the payment of at least ten contributions. Two other restrictions were added. The first was the enforcement of the 'one in five' rule; that, for every five contributions, a claimant was entitled to one

[1] In 1904 there were 81 unions (with a membership of 950,000) which had instituted a system of unemployment pay.

week's benefit and no more. Secondly, the maximum period during which benefit could be drawn was fixed at fifteen weeks for each insurance year.

This scheme worked with great smoothness and success. In 1913 a government investigation showed that only 1 per cent. of the applicants under the scheme were refused on the ground of having exhausted their right to benefit, and there was no evidence that unemployed workmen in the insured trades were being compelled to seek assistance from the Poor Law. Such a satisfactory result naturally suggested an extension of the scheme, and during the war, munition and other workers were brought within its scope. The number of insured persons which had been 2¼ millions in 1912 rose to 4 millions in 1920, and the unemployment fund by that date had accumulated a balance of £21,000,000, notwithstanding that the rates of benefit had been raised to 11*s.* a week, the contributions remaining the same. Much of the financial success was admittedly due to the low level of unemployment during the war years, but even allowing for this, the experiment of unemployment insurance seemed to have fully justified itself, and Parliament was emboldened in 1920 to take the decisive step of establishing an insurance scheme for the whole working population. The Unemployment Insurance Act of 1920 applied to all manual workers and to non-manual workers earning less than £250 a year. Certain classes which were regarded as immune from unemployment were exempted, such as agricultural labourers, domestic servants and some grades of railwaymen. The excluded workers numbered about 4 millions and the insured population 12 millions. The weekly contributions were fixed at 3*d.* for men and 2½*d.* for women, the employer as before contributing an equal amount, and the State bearing a fifth of the cost. Unemployment pay was raised to 15*s.* a week for men and 12*s.* for women, subject to limitations of a ' one in six ' rule and of a fifteen weeks' maximum period. Claimants were obliged to prove the payment of at least twelve contributions.

This comprehensive scheme had the misfortune to be launched at a most unlucky time. The year 1921 was the beginning of a prolonged period of industrial depression, quite unprecedented in the history of this country, which swelled the unemployed population to abnormal dimensions. For the next eight years the number of the workless rarely fell below a million and on occasion rose as high as two millions. These were conditions which the framers of the insurance scheme had not foreseen or allowed for. They had intended to provide for periodical and temporary unemployment of the type which was familiar before the war. But the occurrence of prolonged, and for certain sections of the population, permanent unemployment, had not entered into their calculations. From the very first the unemployment scheme was applied to conditions and purposes for which it was never intended, and it is not surprising that the strain proved almost too much for it. Disaster was only averted through drastic reforms which from some points of view radically altered the character of the scheme. The first change was a revision of the contribution rates. These at one time soared very high. In 1921 the aggregate weekly payment on behalf of a male worker was 2*s.* 1¾*d.* By 1926, when conditions were more stable, the rates had been scaled down considerably. Men paid 7*d.* a week, women 6*d.*, the employer contributing 8*d.* and 7*d.* respectively and the State providing a fraction of the total cost between a third and a fourth. Unemployment pay was fixed in 1924 at 18*s.* a week for a man and 15*s.* for a woman. But of all the changes the most significant was the introduction first of dependents' and second of extended benefit. Dependents' benefit was introduced in 1921. A claimant then became entitled to 5*s.* a week for a dependent wife or husband, and 1*s.* (increased in 1924 to 2*s.*) for each dependent child. It is now generally accepted that dependents' benefit is a very necessary and desirable addition to the scheme. Extended, or, as it was originally called, uncovenanted, benefit also dates from 1921 and was a direct result of the prolonged spell of unemployment which began in that year. It soon became apparent that unless a third of the unemployed population was to be driven on to the poor rates, an extension of the maximum period of fifteen weeks must be allowed. Thus there arose the distinction between standard benefit, to which the insured person was legally entitled, and extended benefit, which was of the nature of a dole. At various times Parliament tried to impose a limit to the period during which extended benefit might be drawn, but by 1924 it became clear that no limit was practicable. Discretionary power, however, was entrusted to local employment committees[1] to disapprove claims for extended benefit, and the Minister of Labour had authority to withhold it in particular cases.[2]

[1] Formed on the model of the health insurance committees.

[2] It was refused, for example, to single persons.

Despite these restrictions, nearly half the persons in receipt of unemployment benefit were drawing this form of it.

The heavy expenditure on extended benefit had the natural result of destroying the actuarial soundness of the unemployment scheme and endangering its solvency. In consequence of a series of annual deficits, the unemployment fund accumulated a heavy debt, which, by the end of 1926, had swollen to a total of £21,000,000. It was in these discouraging circumstances that the Minister of Labour appointed what came to be known as the Blanesburgh Committee to inquire into the whole working of the scheme and to suggest improvements.

The committee issued a unanimous report in January, 1926, to which the Labour representatives (including Miss Margaret Bondfield, afterwards Minister of Labour) found it possible to append their names. It contained a plan for setting the unemployment insurance scheme on a sound actuarial basis. The following were the committee's chief recommendations: (*a*) Employers, employees and the State should contribute in equal proportions to the unemployment fund. (*b*) Contribution rates should be reduced and fixed normally at 5*d*. for men and 3½*d*. for women. (*c*) Benefit rates should be 17*s*. a week for men and 15*s*. for women, and the allowance for an adult dependent should be raised from 5*s*. to 7*s*., so that a married man would receive 24*s*. a week instead of 23*s*. as previously.[1] (*d*) A new class of contributors should be created between the ages of 18 and 21 with lower contributions but also with lower benefits. (*e*) The distinction between standard and extended benefit should be abolished. All benefit should be statutory and payable without any specific limit of time, though after a reasonable interval an unemployed person should lose the right to decline work outside his own trade. (*f*) To wipe out the debt, a special levy should be imposed of 1*d*. per week on men and ½*d*. on women.

In the Unemployment Act of 1927 effect was given to most of these recommendations, though a notable exception was made in regard to the financial proposals of the committee. No change was made in the rates of contribution and the suggestion of a special levy to extinguish the debt was turned down. Thus an opportunity of putting the unemployment scheme on a sound financial footing was lost. On the other hand, the changes recommended in the rates of benefit were put into operation and the new class of contributors between 18 and 21 was created. Most important of all, extended benefit was abolished. The discretionary powers of the Minister of Labour and of the local employment committees were taken away, and the payment of benefit was made to depend on the fulfilment of certain statutory conditions, of which the chief were that the applicant should have paid thirty contributions in the previous two years and that he should be genuinely seeking work. As a test of this latter condition, it was provided that after a certain period, an unemployed person might be compelled to accept work outside his own trade or forfeit benefit. No fixed time limit was imposed to the payment of benefit, but the case of a contributor who had drawn thirteen weeks' benefit within six months would be specially investigated and referred if necessary to a local Court of Referees. The provision of the Act concerning the thirty contributions rule proved incapable of immediate enforcement in the existing state of unemployment, and its application was postponed for eighteen months. In March, 1929, this period was extended for another year.

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[1] Irrespective, of course, of what he would obtain for his children.

It is perhaps regrettable that the recommendations of the Blanesburgh Committee were not approved by Parliament *in toto*. The plan put forward by the Committee was a compromise between different points of view and depended for its general acceptance as well as for its successful working on its adoption as a whole. To accept some of the recommendations and to reject others was not doing the scheme justice. It is also regrettable that Parliament took no steps to avert the threatened bankruptcy of the unemployment fund. Deficits continued to accumulate and in December, 1928, the debt had reached £31 millions. Some improvement was effected when in July, 1929, the State contribution to the Unemployment Fund was increased from two-sevenths to one-third, but the Unemployment Insurance Act of the following year added to the cost of the scheme by lowering the insurance age to 15 [1] and increasing the benefits of contributors under 21.

In Great Britain no provision is made for State insurance against industrial accidents, but the employers' liability in such cases is enforced by a number of Workmen's Compensation Acts (1880, 1897, 1906 and 1923). By the later Acts compensation is payable even when the employer is innocent of negligence, it being accepted that the average workman's wages are too small to allow him to make provision against this risk. The normal benefit rates laid down in the Act of 1923 are half-wages in the case of total incapacity up to a maximum of 30*s*. a week and for a partially disabled man, half the difference between his former wage and what he is now able to earn. If the accident is fatal, the widow receives between two and three hundred pounds, and allowances may be paid to children up to a maximum of six hundred pounds. About 17 million workpeople are protected by these Acts. Most employers insure with private companies against their legal liability, but insurance is not compulsory, and a workman has no remedy against a bankrupt master who is without funds to pay the compensation awarded. The law of debt accords no priority to a claim for compensation, and the State does not guarantee that payment will be made. This is clearly an unsatisfactory state of affairs, which calls for amendment.

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[1] Contingent on the school-leaving age being raised to 15 in 1931.

Until recently, France, in regard to compulsory insurance, was one of the most backward countries in Europe. The departments of the Upper and Lower Rhine, and the Moselle, into which Alsace-Lorraine was divided on its re-annexation to France, retained the State schemes they received when they formed part of the German Empire, but elsewhere, with a few exceptions to be noted immediately, the provision of social insurance was left to voluntary agencies. The State, however, granted substantial subsidies to the friendly societies, and assisted trade unions and other associations which provided out-of-work pay for their members. This latter practice was adopted in imitation of the system started at Ghent in 1901, where the municipality increased the unemployment pay granted by trade unions and added to the sums drawn by unemployed persons from the savings-banks. The example of Ghent was followed by other towns in Belgium, France, Holland, and Germany, and in 1905 the French legislature at the instigation of Millerand, who was then minister of commerce, set aside a State fund for this purpose.[1]

Until 1928 France's solitary example of a compulsory insurance scheme was that adopted against invalidity and old age in 1910. It provided for the payment of pensions to insured persons at 60, the pensions varying according to the number of contributions paid in. When the scheme was started, the highest pension payable was 408 francs a year. But if the pensions were moderate, so were the contributions. The original rates were 9 francs a year for men and 6 francs for women. The employer doubled these amounts and the State added 3⅓ francs of pension for every year of contributions. All workers earning less than 3,000 francs a year[1] were compulsorily insured. The Act of 1910 also provided for invalidity pensions to persons incapacitated through ill-health before reaching the age of 60, but this part of the scheme does not seem to have been put properly into execution. In 1922, for an insured population of 7½ millions, only 105 invalidity payments were recorded.

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[1] In 1924 benefits amounting to 640,385 francs were paid by voluntary associations to 12,000 unemployed. Of this, the State contributed 145,568 francs. *V.* official report, quoted in *International Labour Review*, 1926, p. 889.

This law has never been a success. From the first it aroused opposition amongst both masters and workmen; amongst the masters, who disliked it because of the charges it imposed on them, and amongst the workmen, who desired a non-contributory scheme on the English model. The friendly societies, too, were hostile, as they feared the loss of their clientèle, but their objection was partly removed when workmen were allowed to insure through voluntary associations. Payment was made by stamps affixed to a card, and this was another reason for dislike on the part of the workmen, who saw in the insurance card a revival of the hated *livret*. On all these grounds, the law met with much passive resistance. Workmen declined to pay their subscriptions and employers became tired of paying their share when their employees refused to obey the law. At the close of the war, instead of 9 million insured persons as there ought to have been, there were only 1½ millions. Since then the law has been improved in several particulars and the number of insured persons has very considerably increased.

In regard to provision against the risk of industrial accidents, France has for long recognized the compulsory principle, though she has instituted no scheme of social insurance. The law of 1898, passed after prolonged controversy, established a system which was a compromise between the English and German methods of workmen's compensation. The employer's liability for accidents was clearly defined, but he was placed under no compulsion to insure against it. On the other hand, the State guaranteed the payment of compensation to the worker. It indeed made the payment in the first instance and proceeded in case of default against the employer. To safeguard the State against loss, a special fund was created by the addition of 4 per cent. to the business tax established at the Revolution.[2] The benefits under the law are half-wages in case of total incapacity, and in the event of death, the payment to the widow of one-fifth of the deceased person's income. Parents, children and even grandchildren are also entitled to allowances. The law of 1898 applied mainly to industrial establishments, but in 1922 it was extended to agriculture.

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[1] Raised since the war to 10,000 francs.

[2] The *impôt des patentes*, first imposed in 1791.

There are, besides, two special insurance schemes for miners and seamen. As early as 1813 the legislature had imposed special obligations on mineowners in regard to the medical care of their workers. As a result, institutions of the type of the German *kassen* came gradually into existence, some supported entirely by the mineowner, others maintained jointly with the employees. In 1894 these institutions were brought for the first time under statutory regulation. Separate funds were created for sick benefit and for old age pensions to be maintained by equal contributions from employers and employed, and rules were laid down for the payment of benefit. At this time there were 190 miners' funds in France with a total membership of 150,000.

For seamen, also, special provision was made after the Revolution. In 1791 a sailors' invalidity fund was established under the control of the minister of marine, to which shipowners and seamen contributed in equal proportions. Invalidity pensions were paid after twenty-five years' service, as well as allowances to widows and orphans. This scheme was revised and extended by statutes of 1881 and 1886, and in 1898 an accident fund was added.

This was the position of France with regard to social insurance until 1928. But in that year the Chamber passed a comprehensive law setting up a single scheme of insurance for sickness, invalidity and old age. The law does not apply to Alsace-Lorraine, which keeps its German scheme, nor to those workers for whom special provision has already been made, such as miners and seamen. But with these exceptions, all workers earning less than 15,000 francs [1] yearly become subject to its provisions. Contributions are fixed at 10 per cent. of wages and are paid by employer and employed in equal proportions. The State adds a subsidy which consists in the first instance of the grant of a credit of 240 million francs. To this the government has promised to add half the annual savings which the scheme effects in expenditure on public relief. The cash benefits in the case of sickness are fixed at 50 per cent. of the wage. In the case of invalidity and old age pensions, the proportion is 40 per cent. Old age pensions are payable at 60. In all cases, additional allowances are paid for dependents. Funeral benefit, calculated at 20 per cent. of the yearly wage, becomes payable to the relatives of a deceased contributor. Unemployed persons who are unable to pay their contributions are maintained in all their rights of insurance for a period of six months.

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[1] In the case of a worker with a dependent child, this limit becomes 18,000 francs, and for every further child another 2,000 francs is added.

The scheme is administered through so-called primary and departmental funds. The primary funds are established by approved trade unions, friendly and other societies, and deal mainly with sick benefit. The departmental funds, which are controlled by departmental insurance offices, meet claims for invalidity and old age pensions. The whole system is supervised by a National Social Insurance Office aided by an advisory council. About 8½ million persons are insured under the scheme, while the number of beneficiaries is estimated at 13 millions.

CHAPTER XV

SOME RECENT TENDENCIES

Economic Imperialism

NO account of the economic development of Europe is complete which omits a reference to the influence exerted upon it by contact with other continents. At almost every stage in European history this influence has been felt, but its effects have been more pronounced at some periods than at others. Such a decisive period was the century and a half from 1600 to 1750, when the opening up of new markets in Asia and America prepared the way for the Industrial Revolution in Europe. The last fifty years form another period of the same kind, during which the industrialized nations in their efforts to find fresh outlets for trade have extended their political sway over the undeveloped portions of the earth and built up large colonial empires. The full effects of this latest interaction between Europe and the rest of the world have still to make themselves manifest.

At both the periods mentioned the policy of the civilized powers towards the more backward peoples is accurately described as one of economic imperialism. Its object was to establish the political superiority of one nation over another, in the economic interests of the dominant people. Mercantilism was a selfish policy of this kind. Its colonial system openly and shamelessly sacrificed the interests of colonies and overseas possessions to those of the mother-country. Modern economic imperialism is perhaps less crude but in some ways more deliberate and conscious of the ends to be pursued. As a movement it dates from the third quarter of the nineteenth century, and its earliest champions were found among the statesmen who governed Europe in the 'eighties and 'nineties, Chamberlain in England, Ferry in France, and Bismarck (after a preliminary period of scepticism) in Germany. The speeches of Chamberlain contain some of the clearest expressions of the new imperial policy. 'Empire,' he said once, parodying an aphorism of Napoleon III, 'is commerce.' This phrase puts in a nutshell the outstanding characteristic of the latest form of imperialism, its insistence on economic factors and motives. On another occasion, speaking of imperial expansion to a deputation of business men, Chamberlain remarked, 'It is only in such developments that I see any solution of the social problem with which we are surrounded. Plenty of employment and a contented people go together and there is no way of securing plenty of employment except by creating new markets and developing the old ones.'[1] In France, Jules Ferry was expressing similar sentiments. Defending his colonial policy before the Chambers in 1885, he said, 'It was no longer possible to seek outlets for a French emigration which no doubt had not taken place; it was a question of finding outlets for our industries, exports and capital. This was an absolute necessity since Europe was closing itself to Europe.'[2] These quotations bring out some of the main justifications put forward for imperialist expansion in recent times. They may be summed up as the need of finding outlets for (*a*) surplus goods, (*b*) surplus capital, (*c*) surplus population. With these motives, of course, are mingled others, political, military, strategic and sentimental, but it is the economic motives which carry the most weight in determining imperialist policy.

In practice, modern imperialism is closely allied with *la haute finance*, and financial penetration has proved one of the surest methods of imperialist expansion. The European capitalist lends money to some needy or extravagant barbarian potentate. The debtor makes default and the creditor's government sends a fleet or an army to enforce payment.[3] This forcible collection of debts is often a prelude to a permanent occupation, of which Egypt provides the classic example.

The financier, then, is one agent of the new imperialism. Another, who plays a somewhat more honourable part, is the explorer. Men like Stanley, Lugard, Marchand and Peters have been conspicuous in history as empire-builders. It was Stanley's exploration of the Congo that gave that astute monarch, Leopold of Belgium, the opportunity to found the Congo Free State and incidentally to accumulate a fortune of £4 millions, while the activities of Lugard, Marchand, Peters

[1] Quoted in Fay, *Great Britain from Adam Smith to the Present Day*, p. 82.

[2] Quoted in Woolf, *Empire and Commerce in Africa*, p. 46.

[3] 'In the heroic age, Helen's was the face that launched a thousand ships. In our golden age, the face wears more often the shrewd features of some Hebrew financier.'—Brailsford, *War of Steel and Gold*, p. 56.

and other explorers were main causes of the partition of Africa which was carried out by the European powers in the 'eighties and 'nineties. A third, usually involuntary, agent of imperialism is the religious missionary. Apart from any services he may render as an explorer, he provides in the ill-treatment which he sometimes receives from the native population a useful pretext for intervention on the part of his government. The murder of two German missionaries in China in 1897 was the occasion of Germany's obtaining the cession of valuable territory lying round the port of Kiao-chow.

By these different methods of expansion, substantial additions were made between 1880 and 1914 to the colonial empires of Britain, France and Germany. So far as population and territory went, France was the chief gainer. She acquired 4 million square miles with a population of 50 millions. Britain's share was 3¼ million square miles with 46 millions of a population, while Germany obtained 1 million square miles and a population of about 15 millions. Britain, however, has still by far the largest empire, and what is more important, has the greatest number of colonies which are suitable as outlets for population—*colonies de peuplement, bauernkolonien*—as contrasted with colonies which serve merely as markets for trade—*colonies d'exploitation, handelkolonien.*

Just how much positive economic advantage has accrued to the several nations from these territorial acquisitions is not easy to estimate. In 1776 Adam Smith wrote, 'The inconveniences resulting from the possession of its colonies, every country has engrossed to itself completely. The advantages resulting from their trade, it has been obliged to share with many other countries.'[1] Later experience has largely confirmed the correctness of this verdict. Of Britain's exports, 40 per cent. only go to her overseas dominions, while amongst her chief possessions, India draws only 58 per cent. of her imports from the mother-country, Australia 52 per cent., Egypt and the Sudan 33 per cent., and Canada 7 per cent. With regard to other nations, statistics have the same tale to tell. France sends 13 per cent. of her exports to her colonies, Germany (before the war) only 5 per cent. The movement of population likewise, except in the case of the British Empire, ignores political boundaries quite as much as the course of trade. The United States is still the chief magnet of the European emigrant. Germans and Italians during the last forty years have settled there in enormously greater numbers

[1] *Wealth of Nations*, Vol. II, p. 239.

than in their own colonies.[1] As markets for capital, overseas possessions have played a more successful part, and there are some who see in this development the only intelligible explanation of imperialism.[2] Before the war it was estimated that Britain had £4,000 millions invested abroad, France 50,000 million francs and Germany 28,000 million marks. But capital is notoriously cosmopolitan. It does not follow the flag any more than trade or emigration, and it is not clear that this overflow of surplus wealth into more profitable channels would not have taken place without the establishment of political empires. Even granting that some small economic gains may be ascribed to imperialism, the cost of conquering and maintaining overseas possessions must be reckoned against them, and this is often sufficiently heavy to balance the account. It is no unimportant consideration that a large part of this expense must be measured in blood, not in treasure. 'If,' wrote Yves Guyot in 1885, 'we desired to represent allegorically the cost in population of these 25,000 colonists settled in Algeria, each would be sitting on four corpses, guarded by two soldiers.'[3] While the economic advantages of imperialism are so dubious, it has certain drawbacks which are indisputable. Two of these may be mentioned. First, there is the labour problem which presents such serious difficulties in every undeveloped country. The coloured man with his low standard of living cannot be induced to work by the ordinary motives which appeal to white labourers, and some form of compulsion must be introduced. In earlier times, this problem would probably have been solved in simple fashion, by the deliberate enslavement of native populations, but the modern civilized conscience revolts from such methods, and it is necessary to camouflage the operation of the compulsory principle. A common device is the imposition of a heavy government head or hut tax, which the native can only find means to pay by working for a white employer. In other cases various systems of indentured or contract labour are introduced which are often the thinnest of disguises for slavery. The disadvantage of all these methods is that they do violence to the great principle of individual liberty which every European community professes to respect, besides leading in many cases to the ruthless exploitation and decimation of the native population.[1] There is the further disadvantage that the exploitation of the native, especially if it is accompanied by a process of industrialization, may provoke a nationalist reaction which will greatly increase the difficulty of governing the subject territory. The British Empire furnishes several significant instances of this tendency.

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[1] By 1914 more Germans were emigrating annually to the United States than had settled in the German colonies during the previous thirty years.

[2] Brailsford, *War of Steel and Gold*, p. 77.

[3] Quoted in Woolf, *Empire and Commerce in Africa*, p. 29.

In the international sphere, the great drawback of imperialism is the danger of diplomatic complications which may issue in war. How real the danger is the recent history of Europe unmistakably shows. The British occupation of Egypt produced an estrangement between France and Britain which lasted for twenty years and on at least one occasion brought the two nations within measurable distance of war. The partition of Africa was the origin of a crop of disagreements and misunderstandings which embittered the relations of the Powers for a generation, while among the causes of the outbreak in 1914, an important part must be assigned to German jealousy of British expansion in South Africa and French expansion in Morocco. These rivalries and dissensions are perfectly natural consequences of economic imperialism. As one American observer has put it, ' If the security of each nation is to depend on its having political control of all the markets and sources of raw material that its economic life requires, this means war ; first commercial war, then military war.'[2] The truth of this statement is incontrovertible, and the outlook for the future is distinctly unpromising, unless we can count on the growth of a spirit of international economic co-operation which will substitute commercial liberty and the policy of the open door for the exclusive aims hitherto pursued by imperialist statesmen.[3]

The Trust Movement in Industry

The trust movement is a self-protective development of capitalism, an attempt to organize industry on a more rational basis with a view to correcting two evils of the present system ; the waste and overlapping caused by excessive competition among producers, and the industrial disintegration which follows from over-specialization among firms. The latter tendency is an inevitable result of large-scale production.

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[1] In the Congo, the activities of Leopold of Belgium reduced the native population within thirty years from 40 millions to 10 millions.

[2] Culbertson, *Colonial Tariff Policies*.

[3] *V*. Zimmerman, *The Third British Empire*, Lecture IV.

The making of an article comes to be shared out, first among a number of workers, second among a number of firms, each of which is concerned chiefly with one part of the industrial process. The want of organization and co-ordination among the independent firms leads to wasted effort or it may be to industrial crises. One remedy is a *vertical* combination among firms at different stages of an industry, such as is common in the metal trades. There are gigantic steel businesses which control the making of steel from start to finish, from the digging of the iron ore to the manufacture of steel rails and steamships. Vertical combinations are not necessarily monopolistic, though they tend to become so. The object of *horizontal* combinations, on the other hand, is frankly to restrict competition. They are associations among rival producers with the object of controlling output and prices. In one sense, they may be said to fulfil a social purpose by putting an end to the waste involved in suicidal methods of competition. Frantic price-cutting campaigns benefit consumers to a certain degree but they involve society in a dead loss through the destruction of the capital invested in the firms which are defeated in the struggle. On the other hand, trusts are admittedly anti-social organizations inasmuch as they give the producer power and opportunity to pillage the consumer.

Though the trust movement is a natural and in some ways an inevitable outcome of existing conditions, yet up to the present its scope and extent have been limited in several important directions. It is a development confined on the whole to certain types of industries, especially to those dealing in easily standardized products and not subject to sudden changes of fashion or fluctuations of demand.[1] Similarly trusts seldom develop in industries where large-scale production has not already made great headway or where the industrial units are not concentrated in a fairly limited area. Even in these days of railways and telegraphs, proximity and neighbourhood are still of importance in promoting business understandings and alliances. The state of public opinion and the attitude of the law-courts are other important factors which may advance or retard a trust movement. The precise influence to be attached to tariffs is a little uncertain and usually varies with circumstances. It cannot be said that a protective tariff is an indispensable condition of a trust movement, but it certainly facilitates combination by limiting competition, particularly foreign competition, which is the hardest to foresee and provide against.

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[1] A trust for the manufacture of ladies' hats would have to contend with great difficulties. *Konjunktur* industries, as the Germans call them, are not suitable for trust organization.

With the exception of the United States, Germany is the country in which the trust movement has hitherto made greatest progress. Conditions there are exceptionally favourable. Public opinion is not so hostile as it tends to be in Anglo-Saxon communities. The Germans are proud of their captains of industry and regard the gigantic combinations which they have created as meritorious achievements of the Teutonic genius. The attitude of the law-courts is also distinctly friendly. In England and in the United States a combination in restraint of trade is unlawful; that is to say, the law refuses to recognize it or to enforce any agreements entered into between its members. Such agreements are merely honourable understandings which depend for their observance on the loyalty and good faith of the parties to them. In Germany, on the contrary, agreements which would be considered in restraint of trade in England are perfectly legal and are enforced by the courts. In a case which occurred in 1897, the Imperial Court at Leipzig declared that a combination to avert a break in prices, so far from being illegal, was rendering a valuable service to the community. Another circumstance which favours the combination movement in Germany is the extent to which industry is concentrated as regards place. The Ruhr area produces half of Germany's coal and three-fourths of her steel. This district is the home of the German trust movement. Capitalist concentration has also proceeded very far in the mining, metal and chemical industries, and it is in these industries that the greatest number of trusts is to be found. Of the 385 combinations noted by a government inquiry of 1905, 138 were mining, metal or chemical businesses.

German trusts, or cartells, to give them their usual name, are for the most part limited in their objects to fixing prices and controlling output. They do not as a rule interfere directly with the internal management of the member firms. Each combination has a central selling agency, which takes over the work of marketing from the individual firms in the combine. The sales-bureau fixes the total output and assigns each firm its quota which must not be exceeded under penalties. A firm, however, which does not produce its full quota may claim a drawback.

Two of the most famous German cartells before the war were the Rhenish-Westphalian Coal Syndicate and the Steelworks Union. The Coal Syndicate was formed in 1893. It had its headquarters at Essen and dominated the important coal area of the Ruhr. The legal form of the cartell was that of a joint-stock company and the governing body was a general meeting of the members. But there was a sales-bureau which fixed prices and assigned each member-firm its quota. In virtue of its ownership of State mines, the Prussian government became a member of the Syndicate in 1912, but withdrew after a few months. It was able, however, by using its war powers, to avert a threatened break-up of the combination in 1915. After the war, the coal industry was one of those marked out for 'socialization', and in 1919 a limited scheme of nationalization was put in operation. Eleven regional syndicates were set up under the control of an Imperial Coal Union, on all of which the interests of workers and of consumers were represented. But the employers, who alone understood the technical side of the business, secured the upper hand in these councils and the socialized coal industry came in effect to be little more than a gigantic cartell.

The Steelworks Union was formed in 1904. It included nearly all the German steel-works except those engaged in the manufacture of the very finest products. A preponderant influence was enjoyed naturally by the 'heavy' steelworks of the Rhineland. The commodities controlled were divided into two classes: A products, of which both the output and the marketing were controlled, and B products, which were uncontrolled except in regard to output. After the close of the war, there was a period of anarchy in the German steel trade which gave forceful personalities like Stinnes and Thyssen the opportunity to build up imposing though somewhat insecure combinations. Stinnes was the creator of a mixed vertical and horizontal cartell which did not long survive his death. The Thyssen combination proved more durable. It included half the steel-works in the Ruhr area and through its coal-mines it was an influential member of the Coal Syndicate. Reorganized in 1926 as the United Steelworks Company,[1] it became one of the most powerful trusts in Germany.

In Great Britain, with its free trade and individualist traditions, the trust movement was slow in developing, though there was an early and interesting instance of a cartell in the Newcastle Vend (1771–1844), a combination amongst the Newcastle collieries to fix the price of coal in the London market. Before the war, however, a number of powerful combinations were in existence, of which the sewing-thread firm of J. & P. Coats was a conspicuous example. Through several generations, the Coats family have shown a hereditary genius for business. The firm was founded in 1826 by a certain James Coats who started a small thread-mill at Paisley, and by 1890 the business had grown to such an extent that it controlled a third of the thread trade of the United Kingdom. In that year it was reorganized as a limited liability company and continued its prosperous career of expansion. Much of its success was due to the steady refusal of the directors to absorb competing firms unless they were in a sound financial condition. This is a wise though at the same time a risky policy, because the excluded firms may take their revenge by indulging in suicidal price-cutting. But by steadfastly adhering to this rule, Coats' has avoided what has been the ruin of so many trusts, a load of watered capital on which it is impossible to earn profits. To-day the firm controls 90 per cent. of the British thread trade. The judgments passed on its use of its price-fixing powers vary considerably. Macrosty's verdict [1] is on the whole favourable. The Reconstruction Committee on Trusts (1919) was inclined to be more critical.[2] Other important British trusts are the United Kingdom Soap Manufacturers' Association, largely dominated by Lever Bros., which is responsible for 70 per cent. of the British soap output, and Imperial Chemicals Ltd., a gigantic combination in the chemical industries, formed in 1929.

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[1] Vereinigte Stahlwerke Aktiengesellschaft.

During and after the war the tendency towards industrial combination became so noticeable in Britain as to excite apprehension in certain quarters. The Reconstruction Committee mentioned above predicted that within no distant date combinations might come to exercise ' a paramount control over all important branches of British trade ', and another government committee [3] expressed its alarm at the prospect of a ' money trust ' as a result of the concentration of banking business in the hands of the Big Five.[4] Recent experience has not justified these fears, and in 1927 the Balfour Committee was able to report that 'though many notable examples exist, consolidations cover but a small proportion of industry as a whole '.

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[1] *The Trust Movement in British Industry*, p. 490.

[2] In its Report the Committee considered that the price of the reel of thread for which Coats' was charging 7½*d.* might have been reduced to 6*d.* *V.* Morgan Rees, *Trusts in British Industry*, pp. 104–14.

[3] The Treasury Committee on Bank Amalgamations, 1918.

[4] See p. 94.

In France the trust movement has made smaller progress than elsewhere, which is only natural, considering how much of French production is concerned with artistic goods that cannot be standardized and must be manufactured on a small scale. In its metal industries, however, France has a very powerful trust, the Comité des Forges. This organization really dates from 1864, and before the war it had come to include practically every steel and iron firm in the country. In form, its constitution was democratic, but the controlling power was in the hands of half a dozen large firms, notably Le Creusot and Wendel, while its policy was mainly determined by its energetic and capable secretary, Robert Pinot. Pinot, an ex-professor, was an adherent of the Catholic Socialist School of Le Play, which distrusted industrialism and considered that the limitation of industrial expansion and the maintenance of a large agricultural population were indispensable conditions of a healthy social state. Inspired by these sentiments, Pinot, it is alleged,[1] imposed on the Comité a policy of 'economic malthusianism'.[2] Protected by a stiff tariff from foreign competition and supreme in the home market, French iron-masters were able to reap substantial profits by producing little and selling dear. As an essential part of this policy was limitation of output, the expansion of the French iron industry was deliberately discouraged and the mineral resources of Normandy and the west were left untapped. 'Economic malthusianism' maintained its ground until the war, but thereafter it had to give place to a more aggressive policy. The annexation of Alsace-Lorraine with its rich reserves of ore, and the sequestration of the German iron-works in these provinces, enormously increased the productive capacity of the French iron industry, and imposed on French iron-masters the necessity of finding an outlet abroad for their greatly augmented production. They entered on their new task at a most difficult moment. The trade slump which commenced in 1921 seriously contracted the demand for iron and steel; the reconstituted German iron industry, reinforced by the stimulus of inflation, commenced a strenuous fight for a footing in the international market; and French iron-masters found themselves hampered, as they always had been, by shortage of fuel. This last handicap was in part removed by the provision in the Treaty of Versailles which compelled Germany to deliver to France 375,000 tons of coke per month. This arrangement enabled French iron-masters to get their fuel very cheaply. The reparations coke was distributed at 50 francs a ton. But in course of time the German government, continually pressed by the Allies to balance its budget, increased its coal-tax and raised its transport charges. The price of coke went up until in 1922 it had reached 100 francs a ton. The bounty enjoyed by the French industry suddenly vanished.

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[1] By Francis Delaisi in a series of articles in the *Manchester Guardian Commercial*, May 31, July 12 and August 16, 1923. Pinot published a reply in the *Manchester Guardian Commercial*, October 25, 1923.

[2] The phrase is M. Delaisi's.

At this stage relations between the French and German governments became strained, and in January, 1923, French troops occupied the Ruhr. Opinion is divided as to the responsibility of the Comité des Forges for this step. On the one hand, it is argued that the Comité forced the hand of the government in order to obtain control of the Ruhr coke. On the other, it is alleged that Poincaré, fearing a *rapprochement* between the French and German iron industries, took this drastic action to render it impossible. Whatever the intention, this at any rate was the effect of the occupation of the Ruhr. It postponed any attempt at an understanding between French and German iron-masters. But once the evacuation of the invaded territory had taken place towards the end of the year, negotiations for an agreement began. They issued in the formation of the International Steel Trust in 1926, which arranged a division of the international steel market among the chief competitors. Though some important producing countries like Great Britain stood out, France, Germany, Belgium and Luxemburg gave in their adhesion, and there can be no doubt of the commanding position enjoyed by the new combination in the world market. It is also a fresh proof of the vitality of the trust movement that it has shown itself able to ignore political boundaries and override national animosities.

The trust movement as a whole can hardly be viewed by impartial observers without a certain degree of misgiving. It is a movement which has arisen out of free competition and yet its consequence is the destruction of freedom of enterprise. It affects economies in production and in marketing, and yet these benefits are not reaped by the whole community. It is an anti-social movement which, as American experience shows, can only with the greatest difficulty be subjected to social control. Altogether it is responsible for some of the most baffling problems of the present generation, and there is some point in the remark that none can view the growth of trusts with complacency except those who profit by them or else who see in them the agents destined to destroy an obsolete and unjust social system.

The Russian Revolution

The establishment of a socialist workers' republic in Russia was one of the most momentous of the consequences of the Great War. It was also one of the most unexpected. When, as a result of the military failure against Germany, the Romanoff dynasty fell in March, 1917, the bolshevists were the weakest party in Russia. Within a few months they were the strongest, and had reduced their rivals, the liberals and moderate socialists (mensheviks and social revolutionaries), to impotence. The amazing success of the bolshevists was largely owing to their skilful tactics, to their uncompromising advocacy of peace, which the war-weary nation desired before all things, and by their adroit acceptance of the peasant programmes of land expropriation. But, above all, it was due to the sympathy and support of the army. In the second revolution of 1917, as in the first, the attitude of the troops was the deciding factor, and when on the 7th November, detachments of soldiers occupied the public buildings of Petrograd and besieged the members of the Kerensky government in the Winter Palace, the victory of the bolshevists was assured. The origin of the Soviet Republic is hardly more respectable than that of some of the worst governments of the old régime. Like them, it was the result of a successful military *coup d'état.*

Politically, the revolution of November, 1917, made the proletariat masters of the Russian State. The authority of the new governing class was established and fortified by methods in direct contradiction to the spirit of western liberalism. Under the new Soviet constitution, only proletarians were admitted to the franchise. The bourgeois, defined as 'whosoever profits by the labour of another', was deprived of political rights and excluded from the Red Army. The freedom of the press, 'that shameful traffic of bourgeois opinion' as Lenin called it, was suppressed; the independence of the judiciary was curtailed; and when other methods failed to ensure the supremacy of the ruling class, wholesale terrorism was employed.

Less far-reaching and fundamental than the political consequences of the bolshevist revolution were its economic results. Extraordinary as it may seem, questions of economic organization occupied only a secondary place in the minds of the more intelligent bolshevist leaders. The first essential, they held, was to secure the political victory of the working-class, to encircle capitalism with hostile forces and to deprive it of power to do harm. Socialization of the means of production was indeed the ultimate aim, but this was a goal which could only be reached after a long and toilsome journey. The political supremacy of the working-class, on the other hand, could be established at once, and with the proletariat in control, the future development of society might be guided in directions favourable to working-class interests. These were the views held pre-eminently by Lenin, and they account for much that might otherwise appear contradictory in his career. They explain, on the one hand, the resoluteness with which he carried through the political revolution of November, 1917, and on the other, the critical cautious attitude which he always adopted towards programmes of socialization and nationalization.

In regard to the land, the new government could not avoid a temporizing policy. The peasant had no real sympathy with bolshevism, and his support of the Soviet régime was never more than passive. It was necessary to secure his loyalty by conciliatory measures. As a first step, the government condoned the seizure of the seigneurial domains by the peasantry, which took place immediately after the revolution. It then proceeded to declare the land national property, but took care to deprive this decree of all practical effect by leaving the peasantry in undisturbed occupation of their holdings. They could not sell their land nor let it nor cultivate it by means of hired labour. But apart from these restrictions which meant nothing to the moujik familiar with the commercial practices of the mir, individual possession of land was recognized. The establishment of a few State-farms to serve as models to the surrounding peasantry was the only experiment in the direction of socialization which the government attempted in the villages.

Even in the towns, the Soviet leaders showed little inclination to pursue an extreme policy. No decree for the general nationalization of industry was issued until June, 1918, and though the principle of workers' control was officially recognized, the forcible seizure of factories by workmen was not encouraged. The banks were nationalized at an early date (December, 1917), but this was because of the importance attached to the control of credit as a means of influencing the working of the national economy. Generally speaking, the economic policy of the

Soviet authorities at this time was one of non-intervention. The private capitalist was allowed to pursue his own devices, provided he behaved himself and did not attempt to sabotage the industrial machine. The leaders were content to consolidate their political victory and to leave the future course of economic development to be shaped by events.

This moderate phase of Soviet policy lasted for about a year. Then came the counter-revolution, the invasion of Russia by the white armies of Koltchak, Denikin, Wrangel and Judenitch, and a deadly grapple between the Soviet republic and its enemies. The new State had to fight for its life, and like every community in imminent danger of destruction, had to extend its control over all departments of national life and activity. This was the origin of the 'war communism' which lasted till 1921. In principle, the system was indistinguishable from the policies of national control adopted by the belligerents during the Great War, and it was in this light that Lenin regarded it. As soon as the danger to the State was past, he returned to the temporizing, cautious policy of 1917–18. But to many communists 'war communism' represented a social ideal, desirable in itself, and its abandonment appeared a betrayal of working-class interests and a sacrifice of the chief gains of the revolution. These differences, however, did not show themselves until later, and meanwhile the government proceeded without opposition to subject economic activity to the absolute control of the State, with the object of concentrating all the energies of the nation on the prosecution of the war. In order to ensure that the army was fed, the corn trade was made a government monopoly, and a system of requisitions was instituted by which the peasants were compelled to hand over their surplus grain to the State. In return, the government undertook to supply the villages with manufactured goods, and to fulfil this part of the bargain, as well as to ensure that the army was kept well supplied with munitions and other necessities, industry after industry was brought under State control. These measures enormously reduced the area of free economic exchange. A system of rationing, in which the co-operative societies acted as distributing agencies, took the place of retail trade, and a deliberate attempt was made to destroy the circulating medium by flooding the market with paper roubles. The currency became almost valueless and Russia receded to the condition of a 'natural economy', such exchanges as took place (most of them illicit) assuming the form of barter.

As an emergency measure, 'war communism' justified itself.

The army was fed, clothed and provided with munitions. But the system was ill-adapted to provide a permanent economic régime for Russia. In addition to the many practical difficulties associated with the State administration of industry,[1] it had the fatal defect of severing economic contact between the towns and the villages. The peasants gave up their corn to the State, but the manufactured goods which had been promised in return were not forthcoming, because the towns were too busy producing supplies for the army. In their dread of a white reaction, which might have deprived them of the lands they had seized from the nobles, the peasants acquiesced in this one-sided arrangement. But once the white armies were defeated, and the menace to the new régime removed, they began to murmur, and Lenin realized that the time had come when 'war communism' must be abandoned. His great prestige enabled him to carry the decision against the opposition of the more militant communists, and in 1921 the first measures of the New Economic Policy (N.E.P.) were put into operation.

The new departure was described by Lenin as an 'economic retreat', but it was only so in the sense that it represented a return to the cautious policy of 1917–18. 'War communism' had been to Lenin nothing more than an interlude, forced upon the community by military necessity. Once the national danger was past, he abandoned it in favour of the system for which alone he considered Russia was ripe, a system of 'State capitalism', in which the working-class State occupied the strategic points in the national economy and kept private capitalism firmly under control. As a first step in this direction, the government grain monopoly was cancelled, and the system of requisitions was replaced by a corn tax, payable first in kind, but afterwards in money. The peasants were left to dispose of their surplus grain as they pleased, and the State had now to purchase its supplies in competition with private buyers. The legalization of buying and selling made a stable currency a necessity, and this want was supplied by the issue of a new monetary unit, the chernovetz (equal to 10 gold roubles). Special precautions were taken to preserve the chernovetz from depreciation and the issue of the new notes was carefully regulated.[2] At the same time steps were taken to increase the output of industry by measures which involved a general relaxation of State control. The smaller industrial enterprises were allowed to pass into private hands, and a new form of organization, the ‘ trust ’, was introduced for the State-owned industries. The trusts were groups of industrial establishments governed by popular boards under the supervision of the Supreme Economic Council.[1] They were run on a basis of profit and loss, and were allowed a large amount of commercial freedom, buying their own raw materials and marketing their finished goods. But their dependence on the State-owned banks for credit enabled the government to exercise supervision over their operations. The relaxation of industrial control was accompanied by the extension of commercial freedom. Foreign trade remained a monopoly of the government, but the restrictions on domestic trade were largely removed, and the private shops of the ‘ Nepmen ’ seemed at one time likely to beat the State and the co-operative establishments completely out of the field. The general result was to deliver large tracts of economic enterprise over to free competition, and to create a widespread impression both in Russia and abroad that State socialism had been tried and found wanting. The explanation, as we have seen, was not quite so simple as that.

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[1] For examples, see Dobb, *Russian Economic Development*, Chapters 4 and 5.

[2] At first the old paper roubles continued to be used for small payments, but in 1924 they were withdrawn and their place taken by silver and copper coins.

One immediate advantage of the New Economic Policy was the re-establishment of economic contact between the town and the village, but there were still many difficulties to be overcome before the exchange of manufactures for agricultural products could proceed smoothly. This was illustrated by the important ‘ scissors ’ crisis of 1923. The abolition of the State grain monopoly had encouraged the peasants to sow more corn, with the result that prices fell. But costs and prices of manufactured goods remained high and the effect was to make the rate of exchange between town and village most unfavourable to the latter. The peasants refused to buy and the factories were encumbered with unsaleable stocks. How to close the ‘ scissors ’, or in other words, how to bring agricultural and industrial prices to approximately the same level, became an urgent problem. The government solved it by rough and ready methods. It applied pressure to the trusts to bring down their costs and prices, and it pushed up the price of agricultural products by granting generous credits to grain buyers and opening up a foreign trade in corn. These artificial measures seemed deliberately designed to favour the peasant at the expense of the town worker, and they provoked much discontent amongst certain sections of the communist party, which was intensified later by alterations in the land code, allowing peasants to lease land and to employ ‘ auxiliaries ’. But no reaction against the New Economic Policy could make headway in face of its undeniable success in raising the general level of production. In 1925 Russia had reached a position both in agriculture and industry only 30 per cent. below her pre-war standard. This remarkable result is a striking testimony to the wisdom of the decision taken in 1921, and makes it unlikely that there will be any advance towards pure communism in the near future. So long as the economic recovery of the country is incomplete, it is improbable that the Soviet leaders will sanction a departure from the policy which has shown its power to restore some degree of material prosperity to Russia.

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[1] A body set up in December, 1917, consisting of representatives of government departments and trade unions, together with technical experts in an advisory capacity.

From the economic point of view, Russian society represents, as we have seen, only a very partial and incomplete form of State socialism, but the extent to which freedom of enterprise has been restored must not be exaggerated. The State holds the key-positions of the national economy. It controls the banks, the heavy industries and foreign trade. The departments of economic activity which it has surrendered to private enterprise are not those in which huge fortunes can usually be made, and there is little danger that a new race of capitalists will arise to replace the old. Capitalism exists in Russia but only in an attenuated form. It is the servant, not the master of the State.

Politically, the Revolution has had more decisive results. It has made the proletariat the governing class in Russia. It has established for the first time in history a working-class State. This event is of capital importance. The existence of a workers’ and peasants’ republic in eastern Europe cannot be without its reactions and repercussions on the capitalist societies of the West, and the influence of Lenin must necessarily spread far beyond the boundaries of the State which he created. Whether for good or for evil, new social ideals and a new political force have been introduced into Europe, and the world cannot but be sensible of the difference. Like the French Revolution of 1789, the Russian Revolution of 1917 will indubitably rank as one of the turning-points in the history of civilization.

STATISTICAL APPENDIX

A. POPULATION

United Kingdom

1811	18,527,720
1851	27,390,629
1891	37,732,922
1911	45,221,615
1927	45,433,000[1]

France

1806	29,107,000
1851	35,783,000
1896	38,517,975
1910	39,192,000
1926	40,744,000

Germany

1816	24,833,396
1855	36,113,644
1890	49,428,470
1910	64,925,993
1925	63,178,619

Belgium

1831	3,785,814
1910	7,424,000
1920	7,466,000

Russia

1859	74,000,000
1910	130,820,000
1926	114,409,000

B. URBANIZATION

DISTRIBUTION OF TOTAL POPULATION BETWEEN URBAN AND RURAL AREAS (IN PERCENTAGES)

	Urban	Rural
United Kingdom		
1861	62·3	37·7
1891	72·0	28·0
1911	78·1	21·9
1921	79·3	20·7
France		
1851	25·0	75·0
1891	37·4	62·6
1911	44·2	55·8
1921	46·4	53·6
Germany		
1875	39·0	61·0
1890	47·0	53·0
1910	60·0	40·0
1925	64·4	35·6

[1] Excluding Irish Free State.

NUMBER OF TOWNS WITH POPULATIONS OVER 100,000 (1920)

United Kingdom	51
Germany	46
France	17
Russia	24
Belgium	4

C. OCCUPATIONS

	Active Population in Millions	Percentage of Total Population	Percentage of Active Population employed in			
			Agriculture and Fisheries	Industry and Mining	Trade	Miscellaneous Occupations
United Kingdom, 1921	19	45·3	7·8	51·3	22·2	18·7
France, 1921	22	55·9	41·6	32·1	14·2	12·1
Germany, 1925	32	51·3	30·5	41·4	16·5	11·6
Belgium, 1920	3	43·3	19·3	46·5	18·4	15·8
Russia, 1926	75	51·7	80·5	7·9	3·7	7·9

D. INDUSTRIAL PRODUCTION

OUTPUT IN THOUSAND METRIC TONS

	1913	1927
COAL—		
United Kingdom	292,043	255,264
France	40,051	51,779
Germany	190,109	150,861
Belgium	22,842	27,551
Russia	35,174	30,931
PIG IRON—		
United Kingdom	10,425	7,410
France	5,207	9,326
Germany	19,312	13,089
Belgium	2,485	3,709
Russia	4,624	2,961
STEEL—		
United Kingdom	9,013	9,627
France	5,058	8,402
Germany	18,697	16,167
Belgium	2,614	3,702
Russia	4,838	3,592

E. AGRICULTURE

(SIZE OF HOLDINGS)

United Kingdom, 1895	Holdings	Per cent.	Area in Acres	Per cent.
1–5 acres	117,968	22·7	366,792	1·1
5–50 ,,	235,481	45·3	4,532,623	13·9
50–100 ,,	66,625	12·8	4,885,203	15·0
100–300 ,,	81,245	15·6	13,875,914	42·6
Over 300 ,,	18,997	3·6	8,916,981	27·4

Germany, 1895	Holdings	Per cent.	Area in hectares [1]	Per cent.
Under 2 hectares [1]	3,235,169	58·0	1,807,870	5·6
2–20 ,,	2,005,940	36·2	13,006,655	40·0
20–100 ,,	281,734	5·3	9,868,367	30·3
Over 100 ,,	25,057	0·5	7,829,007	24·1

France, 1892	Holdings	Per cent.	Area in hectares [1]	Per cent.
Below 1 hectare [1]	2,235,405	39·2	1,327,300	2·9
1–10 hectares	2,617,558	45·9	11,244,700	24·1
10–40 ,,	711,118	12·5	14,313,400	30·0
Over 40 ,,	138,671	2·4	22,493,400	43·0

F. FOREIGN COMMERCE

TOTAL OF IMPORTS AND EXPORTS IN MILLIONS OF POUNDS STERLING

	1874–5	1885	1895	1905	1913	1927
	£	£	£	£	£	£
United Kingdom .	656	584	657	914	1,186	1,805
France	296	287	287	380	607	873
Germany	300	290	353	719	1,021	1,192
Belgium	96	102	124	219	328	318
Russia	148	157	128	170	303	157

[1] The hectare is equal to about 2½ English acres.

SHARE IN WORLD'S EXPORTS OF MANUFACTURES
(PERCENTAGES)

	1913		1925
United Kingdom .	28·0	..	25·5
France	11·7	..	11·4
Germany . . .	23·2	..	14·2
Belgium . . .	4·1	..	3·4

G. TRANSPORT

RAILWAY MILEAGE (1924)

United Kingdom . . .	24,396
France	33,284
Germany	36,028
Belgium	6,893
Russia	35,708

H. WEALTH

WEALTH OF CHIEF EUROPEAN COUNTRIES IN 1914
(ESTIMATED BY SIR JOSIAH STAMP)

	Total		Per head
United Kingdom .	£14,500 m.	..	£318
France	£12,000 m.	..	£303
Germany . . .	£16,550 m.	..	£244
Belgium . . .	£1,200 m.	..	£157
Russia	£12,000 m.	..	£85

SUGGESTIONS FOR FURTHER READING

GENERAL BOOKS

Clapham : *Economic Development of France and Germany*, 1815–1914.
Ogg and Sharp : *Economic Development of Modern Europe.*
Knight, Barnes and Flugel : *Economic History of Europe in Modern Times.*

HISTORIES OF SPECIAL COUNTRIES

Great Britain

Mantoux : *The Industrial Revolution.*
Clapham : *Economic History of Modern Britain.*
Fay : *Great Britain from Adam Smith to the Present Day.*
Hammond : *Rise of Modern Industry.*
Knowles : *Industrial and Commercial Revolutions in Great Britain during the Nineteenth Century.*

France

Sée : *Esquisse d'une Histoire économique et sociale de la France.*
Sée : *Vie Economique de la France*, 1815–48.
Levasseur : *Histoire des classes ouvrières et de l'industrie en France*, 1789–1870.

Germany

Dawson : *Evolution of Modern Germany.*
Sombart : *Die Deutsche Volkwirtschaft im XIX Jahrhundert.*
Waltershausen : *Deutsche Wirtschaftsgeschichte*, 1815–1914.

For most recent developments, the economic articles in the latest edition of the *Encyclopædia Britannica* can be usefully consulted, as well as the *International Labour Review* and *Industrial and Labour Information* (weekly), both published by the International Labour Organization.

INTRODUCTION

Sée : *Origins of Modern Capitalism.*

CHAPTER I

Hobson : *Evolution of Modern Capitalism.*
Bourgin : *Le Régime de l'Industrie en France*, 1814–30.
Dawson : *Industrial Germany.*
Veblen : *Imperial Germany and the Industrial Revolution.*

CHAPTER II

Sée : *Régime Agraire en Europe aux XVIII et XIX Siècles.*
Cobden Club Essays : *Systems of Land Tenure.*

Ernle: *English Farming, Past and Present.*
Curtler: *Short History of English Agriculture.*
Lavergne: *Rural Economy of England and Scotland.*
—— *Economie Rurale de la France depuis* 1789.
Herbert: *Fall of Feudalism in France.*
Augé-Laribé: *L'Evolution de la France Agricole.*
Mavor: *Economic History of Russia.*

CHAPTER III

Pratt: *History of Inland Transport and Communication.*
Kirkaldy and Evans: *History and Economics of Transport.*
S. and B. Webb: *English Local Government: the Story of the King's Highway.*
M'Pherson, L. G.: *Transportation in Europe.*
Cleveland-Stevens: *English Railways.*
Lord Monkswell: *French Railways.*
Kech: *Geschichte der deutschen Eisenbahnpolitik.*

CHAPTER IV

Day: *History of Commerce.*
Bowley: *England's Foreign Trade in the Nineteenth Century.*
Levasseur: *Histoire de la Commerce de la France.*
Weill: *Histoire de la Commerce de la France.*
Lotz: *Verkehrsentwicklung in Deutschland,* 1800–1900.

CHAPTER V

Ashley, P.: *Modern Tariff History.*
Bastable: *Commerce of Nations.*
Armitage-Smith: *The Free Trade Movement and its Results.*
Fuchs: *Trade Policy of Great Britain and her Colonies since* 1860.
Meredith: *Protection in France.*
Dawson: *Protection in Germany.*

CHAPTER VI

Rees, J. F.: *Short Fiscal and Financial History of England,* 1815–1918.
Powell: *Evolution of the London Money Market.*
Jenks: *Migration of British Capital to* 1875.
Fisk: *French Public Finance.*
Hirst: *The Stock Exchange.*

CHAPTER VII

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